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PROFITABILITY OF SELECTED MAJOR OIL COMPANY OPERATIONS

COMMITTEE ON FINANCE

UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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PROFITABILITY OF SELECTED MAJOR OIL COMPANY OPERATIONS

(Data Supplied by 10 Major Oil Companies in Response To Committee Questionnaire)

Preface

On February 13 and 14, 1974, the Committee on Finance held hearings on the subject of "Profitability of Domestic Energy Company Operations." In conjunction with that hearing, a questionnaire was submitted to 10 major U.S. integrated oil companies, including the seven largest, with the primary objective of developing facts about oil company investments in, and profits on, their United States petroleum operations.

Only a few companies were able to respond to the questionnaire in time for inclusion of their answers in the printed record of the hearings held on February 13 and 14. Subsequently, the questionnaire was broadened to seek similar information about foreign operations and, for ease in comparison, the companies were requested to conform their responses to a prescribed format. Included in this Committee print are the responses of the oil companies to the original questionnaire, as well as their revised responses in the prescribed format. In addition, various summaries of the information supplied in the oil companies' responses, which were prepared with the assistance of the Congressional Research Service of the Library of Congress, are included.

In view of the concern expressed by several oil companies as to possible misunderstanding and misuse of the information sought under question No. 6, attention is directed to the comments of the companies in responding to this question. Question 6 asks for an estimate of capital "expenditures" for the period 1974–85 based on several assumptions as to capital generated internally and capital obtained by outside financing. Because of the tremendous number of variables affecting future capital expenditures or capital availability, the responses to question 6 are not intended to represent capital projections of the companies involved and should not be so used.

The answers are useful only to indicate the amount of capital that might be available on a company-by-company basis if a company were to maintain the average rate of return it earned for the period 1964–73, and in a second case, a return equal to one and one-half times its 1964–1973 average rate of return. This information is relevant when compared to the estimated total capital that will be needed for energy development in the United States over the 1974–1984 period in order to achieve our goal of energy self-sufficiency.

Questionnaire to All Witnesses Testifying Before Senate Finance Committee on February 13 and 14, 1974

Witnesses representing one company are requested to be prepared to testify in response to the following questions. Witnesses representing a group or industry are requested to organize their testimony so that they may be responsive to the questions, restated as though applicable to the group or industry, where feasible. Witnesses bringing information with respect to the general problem are to regard the questions as applicable to the entire industry. Witnesses are cautioned that the purpose of this hearing is to develop information with respect to the United States operations of the oil industry. It is anticipated that additional hearings will be scheduled to develop information with respect to the foreign operations of the oil industry. Witnesses desiring to testify with respect to the return on investment and tax burdens of the foreign operations or overall operations of multi-national oil companies will be given opportunity to be heard in the subsequent hearings.

Where appropriate, the information sought is, on a year-by-year basis, for the period 1964 to 1973. If the information is available within the time limits allowed for preparation, a longer period, such as 1950–1973 would be desirable. For purposes of this questionnaire, investment in petrochemical operations is not to be regarded as petroleum investment. Note, unless stated otherwise, questions relate only to U.S. operations.

1. What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

(a) Where applicable, please give the source of this information.

(b) Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing Industries? If so, please explain.

(c) How does the rate of return on U.S. petroleum investment, as described above, compare with your rate of return on other investments?

2. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investment, including borrowed capital?

3. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year? What is the ratio between your total cash income (generated by earnings, depreciation, depletion allowance, etc.) and your total investment in petroleum assets, including exploration expense?

4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

5. Fourth Quarter 1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tank wagon prices? To increases in the retail margin (differentiate between company controlled retailers and independent retailers)?

6. Provide an estimate of your capital requirements in the United States for the period 1974–85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–1973; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

7. What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?

8. Describe the typical situations in which you have contractual relationships with a foreign subsidiary involving a pricing problem. To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary? Do you recommend any alternative approach for regulation of such transactions to prevent the shifting of United States profits to foreign subsidiaries?

9. Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.[1]

10. What would have been the impact on rate of return on stockholders' investment in petroleum assets in the United States if there had been no depletion allowance?

[1] Subsequently, questions 3 and 9 were consolidated into a single table, to provide information as to cash flow and capital expenditures and exploration expense, both domestic and foreign, and the relationships between the two items.

TABLE 1.—RATES OF RETURN ON SHAREHOLDERS' INVESTMENT FOR 10 MAJOR OIL COMPANIES, 1964–73

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total rates of return:										
Exxon [1,2,3]	18.8	12.8	13.5	12.4	12.5	13.3	12.6	12.0	11.5	11.7
Gulf [2,4]	14.6	8.2	10.4	10.7	12.5	13.7	13.4	12.8	11.5	[5] 11.3
Mobil [4]	15.6	11.5	11.5	10.9	10.9	10.8	10.3	10.0	9.4	9.0
Phillips [1,6]	11.6	9.7	9.7	9.9	10.5	11.3	13.7	12.7	10.5	10.2
Shell [4,7]	11.4	9.2	8.9	8.9	11.5	15.1	15.0	14.6	14.5	13.2
Standard of California [2,4,8]	15.3	10.8	10.7	10.0	10.5	11.0	10.6	10.5	10.1	9.3
Standard of Indiana [1,2]	13.1	10.5	11.0	10.9	11.0	10.3	9.8	9.2	8.0	7.5
Standard of Ohio [1,2]	7.0	4.5	6.1	7.8	6.6	17.1	18.2	15.3	13.1	12.6
Sun [1]	12.2	9.1	9.4	8.6	9.8	11.3	NA	NA	NA	NA
Texaco [2,4]	17.0	12.8	13.9	13.5	13.4	15.4	15.3	14.4	13.9	13.4
Weighted average [11]	15.4			11.2			12.5			10.8
Mathematical average [12]	13.7			10.4			13.2			10.9
U.S. rates of return:										
Exxon [1,2,3]	17.6	15.3	15.3	14.0	15.0	14.0	14.1	12.1	9.9	9.7
Gulf [2,4]	7.1	10.2	10.7	11.0	13.1	14.6	14.5	13.8	12.2	[5] 11.0
Mobil [4]	10.1	9.2	9.3	10.1	10.8	10.4	9.8	8.5	8.1	6.8
Phillips [1,6]	10.5	11.3	10.2	11.2	11.8	12.6	14.8	14.5	12.2	10.7
Shell [4,7]	12.6	10.1	9.7	9.4	11.4	14.9	14.4	14.4	14.1	12.5
Standard of California [2,4,8]	5.5	6.4	6.0	6.3	7.4	7.4	7.0	7.7	7.7	6.9
Standard of Indiana [1,2]	14.9	12.1	11.0	12.2	12.6	11.9	12.4	11.5	10.6	10.3
Standard of Ohio [1,2]	4.6	1.6	4.8	7.2	5.1	15.4	15.7	12.7	10.4	10.6
Sun [1]	12.1	12.5	12.6	11.6	12.4	15.7	NA	NA	NA	NA
Texaco [2,4]	11.6	12.3	12.2	12.7	12.0	16.9	16.9	16.4	15.5	13.4
Weighted average [11]	11.3			10.8			12.9			10.1
Mathematical average [12]	10.7			10.6			13.3			10.2

Foreign rates of return:										
Exxon [1,2,3]	19.5	12.3	12.5	11.6	10.8	12.8	11.8	11.9	12.4	13.0
Gulf [2,4]	24.7	5.3	10.0	10.0	11.4	12.1	11.4	10.8	10.1	[5] 10.9
Mobil [4]	21.2	14.1	14.2	12.0	10.9	11.4	10.8	11.9	11.0	11.7
Phillips [1,6]	14.2	5.2	8.2	5.2	5.2	4.9	7.9	3.2	1.2	7.0
Shell [4,7,9]	(100+)	(100+)	(100+)	(100+)	100+	100+	100+	100+	100+	100+
Standard of California [2,4,8]	30.4	17.8	19.0	17.8	17.5	19.4	19.0	17.3	15.9	15.3
Standard of Indiana [1,2]	8.4	6.3	11.1	7.7	6.5	5.4	.6	....	(3.2)	(6.7)
Standard of Ohio [1,2,9]	79.7	142.4	73.4	41.2	55.9	41.7	55.2	53.6	62.1	76.1
Sun [1]	12.4	3.2	3.4	1.0	([10])	([10])	NA	NA	NA	NA
Texaco [2,4]	22.9	13.3	16.0	14.6	15.7	13.0	12.9	11.4	11.4	13.5
Weighted average [11]	20.4			11.6			11.8			12.0
Mathematical average [12]	19.2			10.0			10.6			9.2

[1] Rates of return are for petroleum operations only.

[2] Rates of return are calculated on average net assets.

[3] The total figures represent the return for the total corporation. The breakdowns into U.S. and foreign segments returns are based on some arbitrary assumptions concerning the allocation of the corporation's financing and of headquarters' net assets and administrative costs.

[4] Rates of return are for total corporate operations.

[5] Calculated on actual net assets, not average.

[6] The net asset data (stockholders' equity) used in computing the rates of return were obtained by allocating Phillips' total stockholders' equity among its operating segments on the basis of capital employed, as requested by the committee.

[7] Rates of return calculated on net asset data representing stockholders' investment at the beginning of the year.

[8] Rates of return calculated on end-of-year net asset figures.

[9] Prepared by Susan H. Dovell, Research Assistant, Economics Division, Congressional Research Service, Library of Congress.

[10] Net loss.

[11] Weighted average refers to total companies' return as a percentage of total companies' net assets.

[12] Mathematical average is the average obtained by adding the respective rates of return and dividing by the number of companies shown, except that the foreign rates of Shell and Standard of Ohio are omitted to avoid distortion.

Note: Data in this table were supplied by the 10 major oil companies in response to a questionnaire from the Senate Finance Committee asking for profit data from petroleum operations. 5 of the companies reported profits on petroleum operations as requested. 5 companies reported total corporate profit data.

Of the 5 companies reporting total corporate profit, Mobil, Gulf, Shell, and Standard of California all indicated that the nonpetroleum portion of their business was relatively insignificant and its inclusion should not therefore create any distortions in the data.

Source: Responses from the 10 major oil companies listed above to a questionnaire from the Senate Finance Committee. The question as stated by the Finance Committee was: "What was the overall rate of return, after taxes, which your company realized on stockholders, investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States (and abroad)?"

TABLE 2.—NET INCOME, NET ASSETS, AND RATES OF RETURN FOR 10 MAJOR OIL COMPANIES, 1973, 1970, 1967, AND 1964

Company	1973			1970			1967			1964		
	Net income	Net assets	Rate of return (percent)	Net income	Net assets	Rate of return (percent)	Net income	Net assets	Rate of return (percent)	Net income	Net assets	Rate of return (percent)
Exxon:												
Total	2,300	[1] 12,254	[2,3] 18.8	1,267	[1] 10,055	[2,3] 12.6	1,119	[1] 8,786	[2,3] 12.7	909	[1] 7,838	[2,3] 11.6
United States [4]	830	4,716	17.6	587	4,193	14.0	504	3,574	14.1	323	3,330	9.7
Foreign [5]	1,470	7,538	19.5	680	5,862	11.6	615	5,212	11.9	586	4,508	13.0
Gulf:												
Total	[6] 800	[6] 5,569	[7] 14.6	[6] 550	[6] 5,279	[7] 10.7	[6] 568	[6,9] 4,412	[7] 13.4	[6] 395	[6] 3,591	[7] 11.3
United States	226	3,029	7.1	359	3,270	11.0	391	2,753	14.5	267	2,420	11.0
Foreign	574	2,540	24.7	191	2,009	10.0	177	1,659	11.4	128	1171	10.9
Mobil:												
Total	[6] 849	[6] 5,715	15.6	[6] 483	[6] 4,540	10.9	[6] 385	[6] 3,849	10.3	[6] 294	[6] 3,325	9.0
United States	275	2,775	10.1	247	2,513	10.1	210	2,196	9.8	121	1,788	6.8
Foreign	574	2,939	21.1	235	2,027	12.0	175	1,653	10.8	174	1,536	11.7
Phillips:												
Total	[6] 152	[6,10] 1,309	11.6	[6] 124	[6,10] 1,245	9.9	[6] 155	[6,10] 1,134	13.7	[6] 101	[6,10] 998	10.2
United States	96	911	10.5	110	982	11.2	141	954	14.8	92	864	10.7
Foreign	56	398	14.2	14	264	5.2	14	180	7.9	9	135	7.0
Shell:												
Total	[6] 333	[6,11] 2,925	11.4	[6] 237	[6,11] 2,668	8.9	[6] 285	[6,11] 1,898	15.0	[6] 198	[6,11] 1,503	13.2
United States	370	2,920	12.6	249	2,667	9.4	274	1,897	14.4	188	1,504	12.5
Foreign	(37)	5	(100+)	(12)	1	(100+)	11	1	(100+)	10	(1)	100+
Standard of California:												
Total	[6] 844	[6,12] 5,806	[2] 15.3	[6] 455	[6,12] 4,646	[2] 10.0	[6] 409	[6,12] 3,975	[2] 10.6	[6] 308	[6,12] 3,398	[2] 9.3
United States	184	3,468	5.5	194	3,098	6.3	191	2,779	7.0	165	2,402	6.9
Foreign	660	2,338	30.4	261	1,548	17.8	218	1,196	19.0	143	996	15.3
Standard of Indiana:												
Total	[6] 466	[6] 3,722	[2] 13.1	[6] 320	[6] 3,039	[2] 10.9	[6] 264	[6] 2,733	[2] 9.8	[6] 187	[6] 2,534	[2] 7.5
United States	381	2,629	14.9	258	2,188	12.2	261	2,090	12.4	215	2,087	10.3
Foreign	85	1,094	8.4	62	851	7.7	3	644	.6	(28)	447	(6.7)
Standard of Ohio:												
Total	[6] 69	[6] 992	[2] 7.0	[6] 68	[6] 866	[2] 7.8	[6] 71	[6] 390	[2] 18.2	[6] 42	[6] 334	[2] 12.6
United States	45	962	4.6	60	846	7.2	57	365	15.7	34	324	10.6
Foreign	24	30	79.7	8	20	41.2	14	25	55.2	8	10	76.1

Sun Oil:[13]												
Total	[9] 225	[9] 1,845	12.2	[9] 138	[9] 1,612	8.6						
United States	144	1,185	12.1	134	1,154	11.6						
Foreign [14]	81	660	12.4	4	458	1.0						
Texaco:												
Total	[6] 1,292	[6] 7,584	[2] 17.0	[6] 822	[6] 6,088	[3] 13.5	[6] 750	[6] 4,905	[2] 15.3	[6] 541	[6] 4,031	[3] 13.4
United States	454	3,925	11.6	460	3,614	12.7	494	2,920	16.9	328	2,454	13.4
Foreign	838	3,659	22.9	362	2,474	14.6	257	1,985	12.9	212	1,577	13.5
10-company total:												
Total	7,330	47,721	15.4	4,464	40,038	11.2	4,006	32,082	12.5	2,975	27,552	10.8
United States	3,005	26,520	11.3	2,658	24,525	10.8	2,523	19,528	12.9	1,733	17,173	10.1
Foreign	4,325	21,201	20.4	1,805	15,514	11.6	1,484	12,555	11.8	1,242	10,379	12.0

[1] Average of beginning and ending year. The allocation of petroleum net assets between United States and foreign was calculated by determining the relationship between total return on capital employed to the total return on shareholder equity and applying the ratio thus obtained to total capital employed in the U.S. and Foreign operations, respectively.

[2] All rates of return are calculated on average net assets.

[3] Return on shareholders' equity. The total figures represent the return for the total corporation. The breakdowns into U.S. and Foreign segments returns are based on some arbitrary assumptions concerning the allocation of the corporation's financing and of headquarters' net assets and administrative costs.

[4] U.S. net income, assets, and rates of return are for petroleum and natural gas operations only for all years. In 1973 petroleum profits represented about 93 percent of total U.S. profits.

[5] Foreign net income, assets and rates of return are for petroleum and natural gas operations only for 1973, and for all Exxon foreign operations for 1964–70. Petroleum profits represent about 92 percent of 1973 total foreign profits.

[6] All income and asset data are for total corporate operations.

[7] All rates of return are calculated on average net assets except for 1964 which is calculated on actual.

[8] Before extraordinary writeoff.

[9] All income and asset figures are for petroleum operations only.

[10] The net asset data (stockholder's equity) used in computing the rates of return were obtained by allocating Phillips' total stockholder's equity among its operating segments on the basis of capital employed.

[11] All net asset data represent shareholders' investment at the beginning of the year.

[12] All net asset figures are end-of-year figures.

[13] Sun Oil did not provide information for years prior to 1968.

[14] Includes Puerto Rico.

Note: Data in this table were supplied by the 10 major oil companies in response to a questionnaire from the Senate Finance Committee asking for profit data from petroleum operations. Five of the companies reported profits on petroleum operations as requested. Five companies reported total corporate profit data.

Of the 5 companies reporting total corporate profit, Mobil, Gulf, Shell, and Standard of California all indicated that the nonpetroleum portion of their business was relatively insignificant and its inclusion should not therefore create any distortions in the data.

However, due to these variations in reporting by the 10 companies, the 10-company total figures at the end of the table represent only a general order of magnitude of net income and assets and rates of return.

Source: Responses from the 10 major oil companies listed above to a questionnaire from the Senate Finance Committee. The question as stated by the Finance Committee was: "What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation, and marketing of petroleum products in the United States (and abroad)?" Prepared by Susan Dovell, research assistant, Economics Division, Congressional Research Service, Library of Congress.

TABLE 3.—EFFECTIVE TAX RATES PAID BY 10 MAJOR OIL COMPANIES, 1964 TO 1973—INCLUDES ALL TAXES, OTHER THAN EXCISE TAXES, PAID TO FEDERAL, STATE, LOCAL, AND FOREIGN GOVERNMENTS

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total:										
Exxon	78.1	79.8	76.9	77.8	76.3	75.5	76.5	76.4	76.4	74.9
Gulf	67.2	70.2	63.7	55.5	50.2	45.3	47.5	46.4	45.0	43.2
Mobil	62.4	63.2	63.9	57.1	55.4	54.1	49.6	48.5	49.1	47.8
Phillips [1]	44.5	51.9	47.5	46.8	42.5	42.2	41.9	42.3	36.2	34.4
Shell	43.6	45.6	43.7	46.0	39.1	36.8	36.1	38.0	38.0	35.7
Standard of California	59.2	65.1	63.6	60.5	55.8	52.9	48.4	32.5	30.6	31.2
Standard of Indiana	46.6	43.0	40.9	41.1	39.7	42.0	40.9	39.8	44.5	39.1
Standard of Ohio	50.1	56.6	35.6	29.2	58.8	47.2	43.8	44.1	50.5	48.5
Sun	54.1	55.4	54.2	57.0	53.0	48.4	NA	NA	NA	NA
Texaco	74.3	75.3	70.5	66.8	66.6	63.0	61.9	NA	NA	NA
10-company average [2]	70.3			66.6			62.4			55.8
United States:										
Gulf	41.0	28.5	30.7	31.6	26.9	19.4	29.6	33.3	30.9	33.1
Mobil	41.5	38.9	45.9	44.1	38.9	34.7	39.7	39.4	42.7	43.3
Phillips [1]	50.0	48.6	52.8	50.5	45.3	45.8	45.1	43.1	38.7	39.9
Shell	44.0	45.7	44.0	46.1	38.3	36.2	35.8	36.9	36.5	34.5
Standard of California	49.2	44.8	45.6	44.6	34.9	36.3	36.5	37.5	34.6	36.8
Standard of Indiana	41.6	46.0	48.1	48.1	44.2	48.3	40.6	39.3	42.0	34.7
Standard of Ohio	48.5	56.2	31.0	26.6	59.4	46.7	43.0	43.0	50.4	47.8
Sun	50.5	47.7	47.5	48.3	42.0	37.7	NA	NA	NA	NA
Texaco	37.2	35.6	35.3	36.6	30.3	25.7	25.3	NA	NA	NA
Exxon	42.3	40.8	41.3	43.7	40.2	40.5	39.3	38.5	37.4	35.1
10-company average [2]	42.9			42.4			35.6			31.6

Foreign:										
Exxon	83.7	87.0	84.4	85.4	85.4	83.1	84.4	83.8	82.7	81.3
Gulf	72.1	88.0	79.1	73.2	69.6	67.0	67.9	63.8	63.4	56.8
Mobil	67.9	71.3	71.3	65.5	67.0	66.4	57.8	54.7	53.7	50.4
Phillips [3]	...	...	...	...	...	...	...	...	...	...
Shell [4]	...	...	...	...	...	...	...	...	...	...
Standard of California	61.4	71.2	69.3	67.4	66.0	61.7	55.6	26.2	25.2	23.5
Standard of Indiana [3]	61.3	22.1	10.1	4.8	...	...	57.7	95.7	...	...
Standard of Ohio [4]	...	...	...	...	...	...	...	...	...	...
Sun [3]	59.2	77.6	77.1	93.0	...	...	NA	NA	NA	NA
Texaco	80.5	84.6	80.5	79.3	79.4	81.6	80.4	NA	NA	NA
10-company average [2]	77.8	...	...	79.4	...	...	78.2	...	...	70.4

[1] The rates of profitability of taxes for Phillips were recalculated using the tax and income figures supplied by Phillips; however, Phillips points out that the income shown includes earnings of companies accounted for by the equity method, whereas the tax figures do not include taxes paid by such companies. Hence, the taxes are understated.

[2] This average includes total company income and total taxes paid by the companies; since Exxon accounts for almost half of the total taxes, the average tends to reflect Exxon's experience.

[3] These companies had losses on foreign operations in certain years not shown.

[4] Foreign operations of these companies are, or were, relatively insignificant, i.e., less than 5% of net assets.

Note: Data in this table were supplied by the 10 major oil companies in response to a questionnaire from the Senate Finance Committee asking for data from petroleum operations. Five of the companies reported profits on petroleum operations as requested, 5 companies reported total corporate profit data. Four of the 5 companies reporting total profit data, Mobil, Gulf, Shell, and Standard of California, all indicated that the nonpetroleum portion of their business was relatively insignificant and its inclusion should not therefore create any distortions in the data.

Source: Responses from the 10 major oil companies listed above to a questionnaire from the Senate Finance Committee asking for the rate of profitability to taxes, other than excise taxes. The responses to this question showed net income, taxes (other than excise taxes), and the ratio between net income after tax and the sum of net income after taxes and taxes (other than excises) paid to Federal, State and local governments and to foreign governments. The reciprocal of this ratio is the ratio between total taxes (other than excises), paid to Federal, State and local governments and to foreign governments, and the sum of such taxes and after-tax net income, i.e., the effective overall tax rate paid by the 10 companies to all governments. This reciprocal is shown above in the tables. Caution: This is not the effective tax rate paid to the U.S. Government.

TABLE 4.—RATES OF PROFITABILITY OF SALES, OF TAXES, AND OF EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1973, 1970, 1967 AND 1964

[In millions of dollars]

Company	Net income	Sales	Rate of profitability of sales	Taxes (other than excise)	Rate of profitability of taxes [1]	Employed capital	Rate of profitability of employed capital
1973							
Exxon:							
Total	2,300	26,750	8.6	8,180	[10] 21.9	13,779	[4] 18.4
United States [2]	830	7,265	11.4	608	57.7	4,877	17.2
Foreign [3]	1,470	19,485	7.5	7,572	16.3	8,902	19.1
Gulf:							
Total	[5] 800	[5] 9,836	8.1	[5] 1,641	32.8	[5] 7,670	[4] 11.7
United States	226	4 619	4.9	157	59.0	3,885	6.3
Foreign	574	5,217	11.0	1,484	27.9	3,785	17.5
Mobil:							
Total	[5] 849	[5] 11,526	7.4	[5] 1,409	37.6	[5, 8] 10,690	[4, 24] 13.8
United States	275	3,930	7.0	195	58.5	4,894	8.8
Foreign	574	7,596	7.6	1,214	32.1	5,797	[24] 19.3
Phillips:							
Total	[6] 152	[6] 2,270	[7] 5.8	[6] 122	[10] 55.5	[6, 8] 1,860	[4] 9.4
United States	96	1,861	5.1	97	50.0	1,295	8.6
Foreign	56	409	9.0	24	70.0	565	11.2
Shell:							
Total	[5] 333	[5] 4,932	6.7	[5] 257	56.4	[5, 10] 3,951	[4] 9.2
United States	370	4,932	7.5	[9] 291	56.0	3,946	10.2

Foreign	(37)			(34)	52.4	4	(100+)
Standard of California:							
Total	[5, 11] 844	[5, 11] 7,762	10.9	[5, 11] 1,226	40.8	[5, 11, 12] 6,870	[4] 13.5
United States	184	3,538	5.2	178	50.8	4,220	5.1
Foreign	660	4,224	15.6	1,048	38.6	2,650	27.2
Standard of Indiana:							
Total	[6] 466	[6] 5,697	8.2	[6] 408	53.4	[6] 4,967	[4] 10.7
United States	381	4,663	8.2	272	58.4	3,401	12.4
Foreign	86	1,033	8.3	136	38.7	1,566	6.8
Standard of Ohio:							
Total	[6] 52	[6] 1,225	4.3	[6] 52	49.9	[6, 14] 1,419	([25])
United States	45	1,181	3.8	42	51.5	1,419	[4] 5.1
Foreign	7	44	16.9	10	41.9	([25])	([25])
Sun Oil:							
Total	[6] 225	[6] 2,201	10.2	[6] 265	45.9	[6, 15] 2,735	[4] 9.1
United States	144	1,860	7.7	146	49.5	2,023	8.1
Foreign [16]	81	341	23.9	119	40.8	712	11.8
Texaco:							
Total	[5] 292	[5, 17] 11,248	11.5	[5] 3,736	25.7	[6, 18] 9,251	[4] 14.8
United States	454	4,304	10.5	269	62.8	4,729	10.4
Foreign	838	6,944	12.1	3,467	19.5	4,521	19.3
10-Company total:							
Total [20]	5,306	83,403	8.8	17,286	29.7	63,192	([22])
United States	1,005	38,153	7.9	2,255	57.1	34,689	
Foreign	1,302	45,249	9.5	15,030	22.2	28,502	

See footnotes at end of table, p. 13.

TABLE 4.—RATES OF PROFITABILITY OF SALES, OF TAXES, AND OF EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1973, 1970, 1967 AND 1964—Continued

[In millions of dollars]

Company	Net income	Sales	Rate of profitability of sales	Taxes (other than excise)	Rate of profitability of taxes [1]	Employed capital	Rate of profitability of employed capital
1970							
Exxon:							
Total	1,267	17,842	7.1	4,447	[19] 22.2	12,765	[4] 11.1
United States [2]	587	5,491	10.7	460	56.1	4,754	12.5
Foreign [3]	680	12,351	5.5	3,987	14.6	8,011	10.3
Gulf:							
Total	[5] 550	[5] 6,597	8.3	[5] 687	44.5	[5] 7,397	[4] 8.7
United States	359	3,881	9.3	166	68.4	3,991	9.8
Foreign	191	2,716	7.0	521	26.8	3,406	7.4
Mobil:							
Total	[5] 483	[5] 7,369	6.6	[5] 639	43.0	[5] 7,921	[4] 9.8
United States	247	3,024	8.2	195	55.9	4,105	9.0
Foreign	236	4,345	5.4	444	34.5	3,816	10.8
Phillips:							
Total	[6] 124	[6] 1,772	[7] 6.3	[6] 109	[19] 53.2	[6,8] 1,791	[4] 8.1
United States	110	1,618	6.6	112	49.5	1,412	9.0
Foreign	14	154	3.1	(3)	127.3	379	4.8
Shell:							
Total	[5] 237	[5] 3,621	6.6	[5] 202	54.0	[5,10] 3,379	[4] 7.7
United States	249	3,621	6.9	[9] 213	53.9	3,378	8.0
Foreign	(12)	([20])	......	(12)	51.5	1	(100+)
Standard of California:							
Total	[5] 455	[5,11] 4,386	10.4	[5,11] 696	39.5	[5,11,12] 5,392	[4] 9.2

United States	194	2,679	7.2	156	55.4	3,570	5.8
Foreign	261	1,707	15.3	540	32.6	1.822	16.2
Standard of Indiana:							
Total	[6] 320	[6] 4,216	7.6	[6] 243	58.9	[6] 4,056	[4] 8.9
United States	258	3,666	7.0	240	51.9	3,049	9.5
Foreign	62	550	11.2	3	95.2	1,007	7.1
Standard of Ohio:							
Total	[6] 63	[6] 1,071	5.9	[6] 26	70.8	[6 14] 1,188	[4] 5.7
United States	60	1,046	5.8	22	73.4	1,177	5.5
Foreign	3	25	10.7	4	39.7	11	29.6
Sun Oil:							
Total	[6] 138	[6] 1,686	8.2	[6] 183	43.0	[6 15] 2,299	[4] 6.7
United States	134	1,503	8.9	125	51.7	1,721	8.4
Foreign [16]	4	183	2.4	58	7.0	578	1.6
Texaco:							
Total	[5] 822	[5 17] 6,239	13.2	[5] 1,654	33.2	[5 18] 7,190	[4] 12.0
United States	460	3,092	14.9	266	63.4	4,159	11.6
Foreign	362	3,147	11.5	1,388	20.7	3,031	12.5
10-Company total:							
Total [20]	4,457	54,774	8.1	8,882	33.4	53,367	([22])
United States	2,659	29,621	9.0	1,955	57.6	31,316	
Foreign	1,798	25,153	7.1	6,926	20.6	22,051	
1967							
Exxon:							
Total	1,119	14,165	7.9	3,642	[19] 23.5	10,285	[4] 11.7
United States [2]	504	4,378	11.5	326	60.7	3,861	13.1
Foreign [3]	615	9,787	6.3	3,316	15.6	6,424	10.9

See footnotes at end of table, p. 17.

TABLE 4.—RATES OF PROFITABILITY OF SALES, OF TAXES, AND OF EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1973, 1970, 1967 AND 1964—Continued

[In millions of dollars]

Company	Net income	Sales	Rate of profitability of sales	Taxes (other than excise)	Rate of profitability of taxes [1]	Employed capital	Rate of profitability of employed capital
1967							
Gulf:							
Total	[5] 578	[5] 5,110	11.3	[5] 524	52.5	[5] 5,452	[4] 11.4
United States	412	NA	NA	173	70.4	3,306	NA
Foreign	166	NA	NA	351	32.1	2,146	NA
Mobil:							
Total	[5] 385	[5] 5,899	6.5	[5] 379	50.4	[5] 6,224	[4] 9.4
United States	210	2,518	6.3	138	60.3	3,346	8.8
Foreign	175	3,381	5.2	240	42.2	2,878	10.4
Phillips:							
Total	[6] 155	[6] 1,646	[7] 8.9	[8] 112	[10] 58.1	[6] [8] 1,668	[4] 10.4
United States	141	1,534	8.9	116	54.9	1,404	11.1
Foreign	14	112	9.1	(3)	127.3	265	6.4
Shell:							
Total	[5] 285	[5] 3,088	9.2	[5] 161	63.9	[5] [10] 2,451	[4] 12.3
United States	274	3,059	9.0	153	64.2	2,450	11.8
Foreign	11	29	36.7	8	56.9	1	100+
Standard of California:							
Total	[5] [11] 409	[5] [11] 3,467	11.8	[5] [11] 383	51.6	[5] [11] [12] 4,530	[4] 9.9
United States	191	2,391	8.0	110	63.5	3,267	6.5
Foreign	218	1,076	20.3	273	44.4	1,263	18.5
Standard of Indiana:							
Total	[6] 264	[6] 3,376	7.8	[6] 183	59.1	[6] 3,296	[4] 8.8

United States	261	3,083	8.5	178	59.4	2,615	10.8
Foreign	3	293	1.2	5	42.3	682	.8
Standard of Ohio:							
Total	[6] 63	[6] 533	11.8	[6] 49	56.2	[6] [14] 466	[4] 14.5
United States	57	492	11.6	43	57.0	443	13.6
Foreign	6	41	14.6	6	49.2	23	31.7
Sun Oil [21]							
Texaco:							
Total	[5] 750	[5] [17] 5,164	14.5	[5] 1,220	38.1	[5] [18] 5,805	[4] 13.4
United States	494	2,651	18.6	167	74.7	3.412	14.9
Foreign	257	2,513	10.2	1,053	19.6	2,393	11.1
10-Company total:							
Total [20]	4,002	[23] 37,297	[23] 10.7	6,647	37.6	40,154	([22])
United States	2,544	20,106	12.7	1,404	64.4	24,104	
Foreign	1,459	17,191	8.5	5,243	21.8	16,052	
1964							
Exxon:							
Total	909	11,612	7.8	2,717	[19] 25.1	8,550	[4] 11.5
United States [2]	323	3,652	8.8	175	64.9	3,429	9.5
Foreign [3]	586	7,960	7.4	2,542	18.7	5,121	12.8
Gulf:							
Total	[5] 395	[5] 3,504	10.4	[5] 300	56.8	[5] 4,075	[4] 10.4
United States	267	NA	NA	132	66.9	NA	NA
Foreign	128	NA	NA	168	43.2	NA	NA
Mobil:							
Total	[5] 294	[5] 4,597	6.4	[5] 269	52.2	[5] 4,944	[4] 8.3
United States	121	2,048	5.9	92	56.7	2,641	6.0
Foreign	174	2,549	6.8	177	49.6	2,303	11.5

See footnotes at end of table, p. 17.

TABLE 4.—RATES OF PROFITABILITY OF SALES, OF TAXES, AND OF EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1973, 1970, 1967 AND 1964—Continued

[In millions of dollars]

Company	Net income	Sales	Rate of profitability of sales	Taxes (other than excise)	Rate of profitability of taxes	Employed capital	Rate of profitability of employed capital
1964							
Phillips:							
Total	[6] 101	[6] 1,122	[7] 8.6	[6] 53	[10] 65.6	[6, 9] 1,184	[4] 8.9
United States	92	1,075	8.3	61	60.1	1,025	9.4
Foreign	9	47	13.9	(9)	NA	160	6.2
Shell:							
Total	[5] 198	[5] 2,340	8.5	[5] 110	64.3	[5, 10] 1,776	[4] 11.5
United States	188	2,304	8.2	99	65.5	1,777	10.9
Foreign	10	36	27.9	11	48.3	(1)	100+
Standard of California:							
Total	[5] 308	[5, 11] 2,494	[13] 12.4	[5, 11] 140	[13] 68.8	[5, 11, 12] 3,614	[4, 13] 8.9
United States	165	2,020	8.2	96	63.2	2,594	6.6
Foreign	143	474	30.2	44	76.5	1,020	15.2
Standard of Indiana:							
Total	[6] 187	[6] 2,772	6.7	[6] 120	60.9	[6] 2,905	[4] 6.4
United States	215	2,644	8.1	114	65.3	2,458	8.7
Foreign	(28)	128	(21.9)	6	(126.1)	447	(6.3)
Standard of Ohio:							
Total	[6] 40	[6] 449	9.0	[6] 38	51.5	[6, 14] 370	[4] 11.2
United States	34	416	8.3	32	52.2	363	9.9
Foreign	6	33	17.6	6	47.9	8	77.3
Sun Oil [21]							

Texaco:							
Total	[5] 541	[5, 17] 3,631	14.9	NA	NA	[5, 16] 4,463	[4] 12.3
United States	328	2,108	15.6	NA	NA	2,796	11.9
Foreign	212	1,523	13.9	NA	NA	1,667	12.8
10-Company total:							
Total [20]	2,967	[23] 28,984	[22] 10.2	3,741	44.2	27,799	([22])
United States	1,733	16,267	10.7	801	68.4	17,083	..
Foreign	1,234	12,717	9.7	2,939	29.6	10,717	..

[1] The rate of profitability of taxes is the ratio of profit after taxes to profit before taxes.

[2] U.S. net income, sales, taxes, and capital employed data are for petroleum and natural gas operations only.

[3] Foreign net income, sales, taxes and capital employed data are for petroleum and natural gas operations only for 1973, and for all Exxon foreign operations for 1970, 1967, and 1964.

[4] Based on adjusted net income (i.e., includes after tax interest effect of long-term debt.)

[5] Net income, sales, taxes, and employed capital figures are total corporate figures.

[6] Net income, sales, taxes and employed capital figures are for petroleum operations only.

[7] Net income used for this calculation excludes the company's portion of the earnings of companies accounted for by the equity method since the sales of such companies are not included in the company's financial statements.

[8] Comprises stockholder's equity plus long-term debt.

[9] U.S. taxes exclude that portion of U.S. taxes incurred in foreign operations for the years 1970 and 1973. These amounts are shown as foreign taxes.

[10] Employed capital shown is beginning of the year balance of shareholders' investment and long term debt.

[11] Company and majority-owned subsidiaries only.

[12] Including long-term debt.

[13] Ratios for years prior to 1967 not comparable to later years due to consolidation of certain European affiliates in 1967.

[14] Average borrowed and invested capital.

[15] Defined as total assets less current liabilities.

[16] Foreign data includes Puerto Rico.

[17] Sales revenue excludes gross income from services, equity in net income of nonsubsidiary companies, dividends, interest and other net income, whereas net income is applicable to all sources.

[18] Average invested capital.

[19] The rates of profitability of taxes for all years for Exxon and Phillips were calculated using the income and tax data supplied by the two companies.

[20] The domestic data supplied by Standard of Ohio is included in the total figures for the 10-company total, even though foreign data was not available.

[21] No data was provided by Sun Oil for years prior to 1968.

[22] Since the adjusted net income figures for each individual company used for these calculations are not given, it is not possible to determine the rate of profitability of employed capital for the 10-company total.

[23] Since U.S. and foreign breakdowns of Gulf's sales data are not available prior to 1968, Gulf has not been included in the 10-company total sales column for 1967 and 1964, in order that the total, U.S. and foreign rates of profitability of sales will be comparable.

[24] Without the $150,000,000 foreign currency translation factor in 1973, the foreign return would have been 14.8 percent and worldwide 11.6 percent.

[25] Subsequent to the sale of all Canadian assets in 1972, the capital employed consists of an insignificant amount related to Standard of Ohio's five-twelfths of 1 percent interest in the Iranian oil consortium. A calculated return on capital employed for 1973 would be meaningless as to foreign operations.

[26] Negligible.

Note: Data for this table have been supplied by 10 major oil companies in response to a questionnaire from the Senate Finance Committee, asking for rates of profitability of sales, of taxes, other than excise taxes, and of total investment, including borrowed capital. 4 of the companies reported this information for petroleum operations only, while 6 reported total corporate operations. (See headnote to table 1 for explanation of these differences.)

In addition, in determining the rates of profitability of employed capital, the companies based their rates on adjusted net income to include the interest on borrowed capital. Since the adjusted net income figures used for these calculations are not given, it was not possible to determine the rates of profitability of employed capital for the 10-company total.

Source: Responses from 10 major oil companies to a questionnaire from the Senate Finance Committee. The question was stated "What is the rate of profitability to sales? To taxes, other than excise taxes? To total investment, including borrowed capital?"

TABLE 5.—SELECTED FINANCIAL DATA, DIVIDED INTO DOMESTIC AND FOREIGN OPERATIONS OF 10 MAJOR OIL COMPANIES FOR 1973 AND FOR 10-YR. PERIOD, 1964-73

[In millions of dollars]

							Capital expenditures and exploration expense as percent of		
Company	Capital expenditures and exploration expense	Net income	Exploration expense	Adjusted earnings (columns 2 and 3)	Capital recovery	Adjusted earnings and capital recovery (columns 4 and 5) [4]	Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings and capital recovery (1÷6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1973									
Exxon:									
Total	2,417	2,300	256	2,556	1,028	3,584	105.1	94.5	67.4
Domestic	863	830	108	938	280	1,318	104.0	92.0	65.5
Foreign	1,554	1,470	148	1,618	648	2,266	105.8	95.4	68.1
Gulf:									
Total	940	800	156	956	610	1,566	117.5	98.3	60.0
Domestic	562	226	57	283	372	655	248.7	198.6	85.8
Foreign	378	574	99	673	238	911	65.9	56.2	41.5

Mobil:[1]									
Total	1,341	834	152	995	495	1,489	159.1	134.8	90.1
Domestic	719	274	65	339	286	624	262.6	212.3	115.2
Foreign	622	569	87	656	209	865	109.3	94.7	71.9
Phillips:[2]									
Total	342	152	[3] 18	170	187	357	225.0	201.2	95.8
Domestic	166	96	11	107	136	243	174.0	155.6	68.5
Foreign	176	56	7	63	51	114	312.0	278.6	154.4
Shell:									
Total	691	333	110	443	441	885	207.5	156.0	78.1
Domestic	622	370	82	452	408	861	168.0	138.0	72.0
Foreign	69	(37)	28	(9)	33	24	...	...	285.0
Standard of California:[4]									
Total	895	844	158	1,002	406	1,408	106.0	89.3	63.6
Domestic	562	184	84	268	315	583	305.0	210.0	96.0
Foreign	333	660	74	734	91	825	50.0	45.0	40.0
Standard of Indiana:[2]									
Total	1,038	467	204	671	404	1,075	222.3	154.7	96.6
Domestic	638	381	118	499	305	804	167.5	127.8	79.3
Foreign	400	86	86	172	99	271	466.1	232.2	147.5

See footnotes at end of table p. 23.

TABLE 5.—SELECTED FINANCIAL DATA, DIVIDED INTO DOMESTIC AND FOREIGN OPERATIONS OF 10 MAJOR OIL COMPANIES FOR 1973 AND FOR 10-YR. PERIOD, 1964-73—Continued

[In millions of dollars]

Company	Capital expenditures and exploration expense	Net income	Exploration expense	Adjusted earnings (columns 2 and 3)	Capital recovery	Adjusted earnings and capital recovery (columns 4 and 5) [6]	Capital expenditures and exploration expense as percent of: Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings and capital recovery (1÷6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1973									
Standard of Ohio: [2]									
Total	179	53	1	54	51	105	337.7	331.4	170.4
Domestic	179	45	1	46	51	97	401.1	391.4	185.8
Foreign	...	8	...	8	...	8	...	...	...
Sun Oil: [2]									
Total	325	225	47	272	180	452	144.4	119.4	71.9
Domestic	214	144	33	177	150	327	148.6	120.9	65.5
Foreign	111	81	14	95	30	125	137.0	116.8	88.6

Texaco:									
Total	1,334	1,292	61	1,353	551	1,904	103.2	98.5	70.0
Domestic	907	454	61	515	339	854	199.9	176.2	106.2
Foreign	427	838	....	838	212	1,050	50.9	50.9	40.6
1964–1973									
Exxon:									
Total	17,497	13,119	2,231	15,350	7,955	23,305	133.3	113.9	75.0
United States	7,043	5,579	1,269	6,848	3,261	10,109	126.2	102.8	69.7
Foreign	10,454	7,540	962	8,502	4,694	13,196	138.6	123.0	79.2
Gulf:									
Total	8,671	5,490	1,120	6,610	4,357	10,967	157.9	131.1	79.0
United States	4,803	3,394	514	3,908	2,776	6,684	141.5	122.9	71.9
Foreign	3,868	2,096	606	2,702	1,581	4,283	184.5	143.2	90.3
Mobil:									
Total	8,330	4,683	1,150	5,833	3,558	9,392	177.8	142.8	88.6
United States	4,702	2,145	567	2,712	2,114	4,826	219.2	173.4	97.4
Foreign	3,628	2,538	583	3,121	1,444	4,566	142.9	116.2	79.5
Phillips: [2]									
Total	2,738	1,290	[3] 134	1,423	1,535	2,959	212.2	192.4	92.5
United States	1,831	1,124	84	1,208	1,178	2,386	162.8	151.6	76.7
Foreign	907	166	50	215	357	573	547.0	421.1	158.4

See footnotes at end of table p. 23.

TABLE 5.—SELECTED FINANCIAL DATA, DIVIDED INTO DOMESTIC AND FOREIGN OPERATIONS OF 10 MAJOR OIL COMPANIES FOR 1973 AND FOR 10-YR. PERIOD, 1964–73—Continued

[In millions of dollars]

Company	Capital expenditures and exploration expense (1)	Net income (2)	Exploration expense (3)	Adjusted earnings (columns 2 and 3) (4)	Capital recovery (5)	Adjusted earnings and capital recovery (columns 4 and 5) [6] (6)	Capital expenditures and exploration expense as percent of: Net income (1÷4) (7)	Adjusted earnings (1÷4) (8)	Adjusted earnings and capital recovery (1÷6) (9)
1964–1973									
Shell:									
Total	6,461	2,650	876	3,526	3,265	6,791	243.8	183.2	95.1
United States	6,282	2,709	794	3,503	3,177	6,680	232.0	179.0	94.0
Foreign	179	(59)	82	23	88	111	....	700+	161.0
Standard of California: [4]									
Total	7,277	4,718	1,204	5,922	3,046	8,968	154.2	122.8	81.1
United States	5,071	1,939	799	2,738	2,500	5,238	261.0	185.0	97.0
Foreign	2,106	2,779	405	3,184	546	3,730	76.0	66.0	56.0

Standard of Indiana: [2]									
Total	6,617	2,971	1,514	4,485	2,987	7,474	222.7	147.5	88.5
United States	4,573	2,619	958	3,577	2,507	6,085	174.6	127.8	75.2
Foreign	2,044	352	556	908	480	1,389	580.9	225.0	147.2
Standard of Ohio: [2]									
Total	1,133	485	40	525	385	911	233.6	215.8	124.3
United States	1,109	431	32	463	366	830	257.2	239.2	133.6
Foreign	24	54	8	62	19	81	43.6	37.9	29.1
Sun Oil: [2,5]									
Total	2,006	982	291	1,273	830	2,103	204.2	157.5	95.4
United States	1,508	884	215	1,099	697	1,796	170.5	137.2	84.0
Foreign	498	98	76	174	133	307	508.1	286.2	162.2
Texaco:									
Total	9,407	8,033	545	8,576	3,423	12,000	117.1	109.6	78.3
United States	5,970	4,415	542	4,956	2,171	7,127	135.2	120.5	83.8
Foreign	3,437	3,618	3	3,620	1,252	4,873	95.0	94.9	70.5

[1] Figures for 1973 are estimates.
[2] Data for petroleum operations only.
[3] Net of tax benefit.
[4] Data other than net income is for company and majority owned subsidiaries only.
[5] 6-year total, 1968–73.
[6] Represents cash flow.

Note: Cash flow must cover not only capital expenditures, but also the working capital needs and dividend requirements. For qualification of data, please refer to headnote on table 8.

Source: Responses from the 10 oil companies listed above to a questionnaire from the Senate Finance committee. The question was stated "What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year? What is the ratio between your total cash income (generated by earnings, depreciation, depletion allowance, etc.) and your total investment in petroleum assets, including exploration expense?"

TABLE 6.—PROJECTED [1] U.S. OPERATIONS CAPITAL AVAILABILITY FOR 10 SELECTED OIL COMPANIES WITH RETURN ON INVESTMENT AT 1964–73 AVERAGE [2]

Company	Rate of return (percent)	In millions of dollars												
		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total
Texaco [3]	14.0	930	822	876	935	998	1,064	1,135	1,214	1,295	1,384	1,479	1,579	13,711
Gulf	11.7	640	712	791	879	976	1,064	1,156	1,253	1,356	1,465	1,580	1,700	13,572
Standard of Ohio [4]	7.3	136	145	155	164	174	184	194	205	215	226	237	248	2,283
Standard of California	6.9	773	860	957	1,065	1,187	1,117	1,229	1,373	1,526	1,699	1,894	2,108	15,788
Standard of Indiana [5]	12.0	502	537	572	612	654	698	747	797	851	909	972	1,038	8,889
Sun	6.8	285	301	324	347	389	417	444	476	509	544	581	622	5,239
Shell	12.2	867	936	879	942	1,007	1,064	1,134	1,196	1,268	1,340	1,419	1,505	13,557
Exxon [6]	10.5	1,291	1,431	1,580	1,742	1,918	2,109	2,319	2,545	2,793	3,061	3,356	3,675	27,820
Phillips	11.7	3,715	223	235	248	263	279	295	313	331	350	371	392	415
Mobil	9.3	465	510	534	560	588	615	644	675	708	743	778	815	7,635
Total		112,209	6,112	6,489	6,916	7,509	8,170	8,627	9,315	10,065	10,871	11,742	12,688	13,705

[1] These figures have been projected by the above companies in accordance with several hypothetical assumptions required by the committee's questionnaire, and do not take into account the effects of variables such as economic conditions or governmental regulation. Therefore, the above data should be considered only as a model of possible, rather than actual, capital availability.

[2] Available capital includes funds generated from earnings (after dividends), capital recovery, and borrowings.

[3] Figures for company originally subtracted from available capital as additions to working capital have been added back in to facilitate comparability with other data.

[4] Figures provided by company have been rounded to millions of dollars.

[5] Data based on domestic petroleum operations only.

[6] Data based on domestic petroleum and natural gas operations only.

Source: Data extracted from oil company responses to a questionnaire from the U.S. Senate Finance Committee. Prepared by Richard G. Howard, economic analyst, Congressional Research Service, Library of Congress.

TABLE 7.—PROJECTED [1] U.S. OPERATIONS CAPITAL AVAILABILITY FOR 10 SELECTED OIL COMPANIES WITH RETURN ON INVESTMENT AT 1½ TIMES 1964–73 AVERAGE [2]

Company	Rate of return (percent)	In millions of dollars												
		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total
Texaco [3]	21.0	1,132	1,074	1,184	1,307	1,444	1,595	1,764	1,951	2,159	2,389	2,647	2,931	21,577
Gulf	17.6	758	873	1,005	1,156	1,329	1,505	1,700	1,917	2,160	2,428	2,728	3,060	20,619
Standard of Ohio [4]	11.0	180	196	213	230	249	268	288	309	330	353	376	401	3,392
Standard of California	10.5	788	876	975	1,085	1,208	1,344	1,497	1,518	1,629	1,818	2,026	2,256	17,020
Standard of Indiana [5]	18.0	627	694	765	846	934	1,030	1,138	1,257	1,388	1,532	1,691	1,868	13,770
Sun	10.2	403	441	487	537	592	654	719	793	875	964	1,064	1,171	8,700
Shell	18.3	937	1,088	1,116	1,168	1,280	1,388	1,515	1,643	1,785	1,937	2,102	2,281	18,241
Exxon [6]	15.8	1,749	2,020	2,328	2,678	3,078	3,532	4,046	4,632	5,299	6,056	6,917	7,895	50,230
Phillips	17.55	5,222	263	285	311	339	368	400	435	473	515	560	610	663
Mobil	14.0	530	606	650	697	747	801	857	920	985	1,056	1,132	1,212	10,193
Total		168,964	7,367	8,153	9,034	10,043	11,229	12,517	13,959	15,413	17,125	19,093	21,293	23,738

[1] These figures have been projected by the above companies in accordance with several hypothetical assumptions required by the committee's questionnaire, and do not take into account the effects of variables such as economic conditions or governmental regulation. Therefore, the above data should be considered only as a model of possible, rather than actual, capital availability.

[2] Available capital includes funds generated from earnings (after dividends), capital recovery, and borrowings.

[3] Figures for company originally subtracted from available capital as additions to working capital have been added back in to facilitate comparability with other data.

[4] Figures provided by company have been rounded to millions of dollars.

[5] Data based on domestic petroleum operations only.

[6] Data based on domestic petroleum and natural gas operations only.

Source: Data extracted from oil company responses to a questionnaire from the U.S. Senate Finance Committee. Prepared by Richard G. Howard, economic analyst, Congressional Research Service, Library of Congress.

TABLE 8.—PROJECTED TOTAL DOMESTIC CAPITAL AVAILABILITY FOR A GROUP OF SELECTED U.S. OIL COMPANIES, 1974-85 [1]

[In millions of dollars]

Year	Total capital availability— With return on investment at 1964-73 average	With return on investment at 1½ times 1964-73 average
1974	6,112	7,367
1975	6,489	8,153
1976	6,916	9,034
1977	7,509	10,043
1978	8,170	11,229
1979	8,627	12,517
1980	9,315	13,959
1981	10,065	15,413
1982	10,871	17,125
1983	11,742	19,093
1984	12,688	21,293
1985	13,705	23,738
Total, 1974-85	112,209	168,964
Average group rate of return on net assets (percent)	10.3	15.4

[1] These figures have been projected by the above companies in accordance with several hypothetical assumptions required by the committee's questionnaire, and do not take into account the effects of variables such as economic conditions or governmental regulation. Therefore, the above data should be considered only as a model of possible, rather than actual, capital availability.

Source: Data extracted from oil company responses to a questionnaire from the U.S. Senate Finance Committee. Prepared by Richard G. Howard, economic analyst, Congressional Research Service, Library of Congress.

Note: Several companies' figures show inconsistencies in the growth of available capital. These inconsistencies are attributable to 2 things: (1) Several companies were above (or below) a level of borrowing that would make their debt/equity ratio 33 percent. By lowering (or raising) their debt positions to conform with the assumed debt/equity ratio of 33 percent, several firms' available funds fluctuated between 1975-76. (2) The methods used by the individual companies to determine borrowings were not always consistent or in compliance with the assumptions prescribed in the committee's questionnaire. Several companies submitted numerous qualifications with their responses while others made no attempt to explain the methodology used in making their calculations. For this reason it has not been possible to evaluate the accuracy or compatibility of the data supplied.

Table I sets forth the aggregate figures for projected capital availability of the 10 companies that responded to question 6. The average group rate of return on net assets is simply an arithmetic average obtained by adding the given rates of return and dividing by 10.

TABLE 9.—RATES OF RETURN ON EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1964 TO 1973

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total:										
Exxon	18.4	12.6	12.4	11.1	11.2	11.9	11.7	11.9	11.4	11.5
Gulf	11.7	6.8	8.4	8.7	10.1	11.0	11.4	11.2	10.5	10.4
Mobil	13.8	10.1	10.1	9.8	9.8	9.8	9.4	9.2	8.7	8.3
Phillips	9.4	7.9	8.1	8.1	8.4	8.9	10.4	10.1	9.0	8.9
Shell	9.2	8.0	7.6	7.7	9.5	11.8	12.3	12.3	12.9	11.5
Standard of California	13.5	9.5	9.6	9.2	9.6	10.1	9.9	10.1	9.7	8.9
Standard of Indiana	10.7	9.0	9.3	8.9	9.1	9.0	8.8	8.1	7.3	6.4
Standard of Ohio	5.1	2.6	5.3	5.7	5.9	14.4	14.5	11.8	11.0	11.2
Sun	9.1	7.0	7.2	6.7	7.8	8.7	NA	NA	NA	NA
Texaco	14.8	11.2	12.2	12.0	11.8	13.4	13.4	12.9	12.6	12.3
Weighted average [3]	13.6			9.7			11.2			10.2
Arithmetical average [4]	11.6			8.8			11.3			9.3
United States:										
Gulf	6.3	8.7	9.2	9.8	11.3	12.2	NA	NA	NA	NA
Mobil	8.8	8.0	8.1	9.0	9.7	9.2	8.8	7.6	7.2	6.0
Phillips	8.6	9.0	8.4	9.0	9.3	9.8	11.1	11.4	10.4	9.4
Shell	10.2	8.8	8.2	8.0	9.4	11.8	11.8	12.2	12.5	10.9
Standard of California	5.1	5.8	5.6	5.8	6.7	6.7	6.5	7.4	7.3	6.6
Standard of Indiana	12.4	10.1	9.2	9.5	10.1	10.1	10.8	9.8	9.6	8.7
Standard of Ohio	5.1	2.6	5.0	5.5	5.4	13.6	13.6	10.9	9.5	9.9
Sun	8.1	8.5	8.8	8.4	10.2	12.7	NA	NA	NA	NA

See footnotes at end of table p. 25.

TABLE 9.—RATES OF RETURN ON EMPLOYED CAPITAL FOR 10 MAJOR OIL COMPANIES, 1964 TO 1973—Continued

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
United States—Continued										
Texaco	10.4	10.8	11.0	11.6	10.9	14.9	14.9	14.6	13.7	11.9
Exxon	17.2	15.1	14.1	12.5	13.5	12.5	13.1	12.0	9.9	9.5
Weighted average[3]	9.8			9.5			11.2			9.0
Arithmetical average[4]	9.2			8.9			11.3			9.1
Foreign:										
Exxon	19.1	12.1	11.5	10.3	9.7	11.5	10.9	11.8	12.3	12.8
Gulf	17.5	4.8	7.5	7.4	8.6	9.3	NA	NA	NA	NA
Mobil	19.3	12.5	12.6	10.8	9.9	10.7	10.4	11.4	10.6	11.5
Phillips	11.2	4.8	7.1	4.8	4.7	4.4	6.4	3.2	1.5	6.2
Shell	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Standard of California	27.2	16.0	16.8	16.2	16.5	18.5	18.5	17.0	15.8	15.2

Foreign—Continued										
Standard of Indiana	6.8	6.1	9.7	7.1	6.1	5.2	.8	.3	(2.7)	(6.3)
Standard of Ohio	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Sun	11.8	3.3	3.2	1.6	.2	(Loss)	NA	NA	NA	NA
Texaco	19.3	11.7	13.7	12.5	13.1	11.1	11.1	10.3	11.0	12.8
Weighted average[3]	18.6			10.2			11.0			11.9
Arithmetical average[4]	16.5			8.8			9.7			8.7

[1] Foreign operations of these companies are, or were, relatively insignificant, i.e., less than 5 % of net assets.

[2] Mobil indicates that for 1973 the worldwide return would have been 11.6 and the foreign return 14.8, without a $150,000,000 foreign currency translation factor.

[3] Weighted average refers to total companies' return as a percentage of total companies' employed capital.

[4] Arithmetical average is the average obtained by adding the respective rates of return and dividing by the number of companies shown.

Note: Data in this table were supplied by the 10 major oil companies in response to a questionnaire from the Senate Finance Committee asking for profit data from petroleum operations. Five of the companies reported profits on petroleum operations as requested, 5 companies reported total corporate profit data. Four of the 5 companies reporting total profit data, Mobil, Gulf, Shell, and Standard of California, all indicated that the nonpetroleum portion of their business was relatively insignificant and its inclusion should not therefore create any distortions in the data. Exxon indicates its employed capital figures for foreign operations are for all Exxon foreign operations for years prior to 1972.

Source: Responses from the 10 major oil companies listed above to a questionnaire from the Senate Finance Committee asking for rates of return on employed capital. Employed capital is the sum of net assets (or shareholders' equity) and long-term liabilities. Return is the sum of net income and after tax interest expense on long-term debt.

INDIVIDUAL RESPONSES TO SENATE FINANCE COMMITTEE QUESTIONS

EXXON CO., U.S.A.

Question No. 1. What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

SELECTED RETURN CALCULATIONS

[In percent]

Year	Exxon Corp		U S petroleum operations	
	Stockholders equity	Total assets	Capital employed (including borrowing)	Total assets
1964	11.7	7.7	9 5	8.1
1965	11.5	7 5	9.9	8.4
1966	12.0	7 7	12.0	10 1
1967	12 6	7.9	13.1	11.0
1968	13.3	7.9	12 5	10.4
1969	12.5	7.2	13.5	11.2
1970	12.4	7 1	12.5	10.1
1971	13 5	7.7	14.1	11.3
1972	12.8	7.3	15.0	11 4
1973	18.8	10.4	17 2	12.4

Note Return on stockholders' investment for U S petroleum business is not calculated since Exxon Co , U S A , principal domestic operating company for Exxon Corp.'s petroleum business, is a division rather than a separate corporate entity.

(*a*) Where applicable, please give the source of this information. The primary source of this information is the records of Exxon Company, U.S.A. and published information released by the Exxon Corporation.

(*b*) Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing Industries? If so, please explain.

The data submitted in response to Question 1 are consistent with results reported to stockholders and the Federal Trade Commission for U.S. operations except for the exclusion in this response of amounts applicable to non-petroleum or non-U.S. operations.

(*c*) How does the rate of return on U.S. petroleum investment, as described above, compare with your rate of return on other investments?

Exxon Corporation, through its domestic operating company Exxon Company, U.S.A., is engaging in coal, uranium and land activities. However, these activities, in the aggregate, account for less than five percent of Exxon Company, U.S.A.'s assets and earnings. In addition, Exxon Corporation handles its domestic chemicals business through Exxon Chemical Company, U.S.A. 1973 chemicals returns were comparable to petroleum returns, but were lower in years prior to 1973.

Question No. 2. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investment, including borrowed capital?

Year	Petroleum net income as percent of— Sales	Taxes (excluding excise)	Labor costs [1]	Total investment (including borrowing)
1964	8.9	185.0	87.6	9.5
1965	9.0	167.2	94.6	9.9
1966	11.0	160.3	123.3	12.0
1967	11.5	154.7	135.2	13.1
1968	11.3	147.0	138.3	12.5
1969	12.4	148.6	152.9	13.5
1970	10.7	127.8	135.2	12.5
1971	11.7	141.7	150.0	14.1
1972	11.7	144.6	151.5	15.0
1973	11.5	137.1	167.7	17.2

[1] Manning levels were reduced 15 percent during 1964 73 period due to efficiency improvements and higher investment levels, while volumes grew substantially during this period.

Question No. 3. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year, and as a percentage of the sum of (a) earnings (after taxes and dividends) and (b) exploration items which were expense? Please indicate whether this table is based on income for tax purposes or for financial book purposes.

Year	Amount (millions)	Percent of earnings (after taxes and dividends) plus exploration expenses
1964	$601	231.2
1965	529	207.5
1966	585	206.9
1967	688	221.7
1968	1,044	316.6
1969	683	198.8
1970	719	214.7
1971	642	151.6
1972	689	159.1
1973	863	140.2

Notes: Above table is based on income for financial book purposes.

Exxon Corp.'s dividends as percent of earnings, were lower in 1971 73 than during 1964 70 period, thus reducing percentage shown in right hand column. If dividends were at earlier rate of earnings (or 65 percent) in 1971 73, percentage would have been:

	Percent of earnings (after taxes and dividends) plus exploration expense
1971	190.5
1972	188.4
1973	216.3

Question No. 4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

Year	Amount (millions)	Dividends as percent of earnings	Year	Amount (millions)	Dividends as percent of earnings
1964	$218	67.4	1969	$401	61.9
1965	243	69.8	1970	373	63.5
1966	234	67.4	1971	379	56.1
1967	324	64.3	1972	398	55.6
1968	327	61.5	1973	325	39.0

Question No. 5. Fourth Quarter—1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin (differentiate between company-controlled retailers and independent retailers)?

Fourth quarter 1973 U.S. petroleum earnings were 15 percent above the fourth quarter 1972. The growth rate for the fourth quarter was slightly below the full-year growth rate of 16 percent. The major reasons for fourth quarter improvement were higher refinery operating levels and petroleum product sales and lower marketing expenses. Petroleum product prices were higher and prices on motor gasoline to dealers averaged 2¼ cents/gallon above the last quarter in 1972. However, all the additional revenue due to higher prices for petroleum products were offset by increased costs for purchases of crude and products.

With respect to prices on gasoline sold to dealers or at the pump of company-operated stations during the fourth quarter of 1973, all increases in price were directly related to cost pass-through provisions allowable under Phase IV. Prices to our dealers were increased by two cents per gallon between October 1, 1973, and December 31, 1973. Pump prices at our company-operated stations were increased by the same amount. There was no increase in profit in dealer tankwagon prices or in retail margin in company-operated stations. We do not have precise data on pump prices actually charged by our dealers.

Question No. 6. Provide an estimate of your capital requirements in the United States for the period 1974–85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–1973; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

This question recognizes the importance of the Company's levels of return in determining its ability to finance the capital projects which it can undertake. The ability to attract investment funds is directly responsive to the expected returns and evaluation of the risk to which the industry and the individual company is exposed. The domestic operations of Exxon are part of a multi-national Corporation whose ability to attract funds is a function both of its domestic and foreign levels of return, and the stability which characterizes those returns.

In the 1964–1973 period, Exxon's domestic petroleum operations had a return which averaged 10.4 percent on total assets. The response to the question of what these return levels suggest for the future is affected by a number of factors. The debt level at which the Company can maintain its financial strength is certainly an important one. Exxon believes the assumptions given by this Committee are reasonable for the U.S. industry as a whole, although the direct borrowing ratio of 25 percent of financial needs is a bit high for Exxon Corporation while the off-balance-sheet factor of 13 percent of needs may be slightly low, taking into account tanker charters and foreign operations. Another important factor is the degree of risk which surrounds the operations of the industry and the individual company. The ability to raise funds at certain levels of return is directly related to the risk to which those funds are exposed. Should there be additional operating risks, such as those associated with deepwater drilling, or should the investment climate for the industry deteriorate due to political actions, higher return levels would be necessary to attract funds into the industry. A third major factor which affects the ability to raise funds in the future is the increasing competition which we expect for funds. Historical return levels for the petroleum industry may, therefore, not be adequate to compete effectively in capital markets in the future.

A fourth factor is that the petroleum industry is embarking on an era characterized by investment projects with very long lead times which require considerably more investment per unit of energy output than conventional production and refining of the past. Exploration and production in deep water, pipeline construction through the Arctic environment, manufacture of synthetic gas and oil from coal all involve higher risks, greater commitments of capital and longer periods between when the capital is expended and returns begin to appear than traditional petroleum investments. It is, therefore, particularly important at this time that our basic business continue to earn sufficient returns so that we may undertake these major new and expensive projects.

We have divided the forecast period given us by the Committee into two parts, the period from 1974–1977 and the period from 1978–1985. During the first four years Exxon's projections, for an assumed U.S. petroleum company structured and operated along the lines of Exxon USA, incorporating the return and debt assumptions given by the Committee, show an ability to devote to capital projects something less than \$5 billion. At return levels of 1.5 times the 1964–1973 average rate of return, this number would be in excess of \$7 billion, Actually. Exxon USA's capital expenditures are planned to approximate \$6.0 billion, somewhat in excess of levels which the average returns of the past ten years, coupled with the Committee's financing assumption, would indicate could be financed.

For the 1978–1985 period, Exxon's capital requirements are much less definite than those in the nearer term. Based on outside studies and Exxon USA's historical position within the industry, it is estimated that in excess of \$20 billion will be required in U.S. capital investment funds in the 1978–1985 period. Applying the Committee's financing assumptions to an assumed U.S. company for the same period suggests that its financing capability would be on the order of \$15 billion. If Exxon USA's future rates of return were increased to 1.5 times their average historical levels, these calculations suggest an ability to raise the necessary funds for capital projects. A similar projection of industry's ability to raise capital funds suggest that historical return rates will not provide the funds which will be required. The increased returns characteristic of 1973 will improve these prospects.

We might suggest at this stage that we feel there is no definitive set of numbers and ratios that prescribe exactly the future potential for capital outlays. Generally, the oil industry had returns adequate to meet its investment needs during the 1950's but shifted dangerously toward inadequate return levels during the 1960's and in the first part of the decade; we earnestly hope conditions will permit us to pursue all available investment opportunities to help meet this nation's energy requirements from this point on. However, considering the long lead time and heavy capital investments per unit of energy output required for developing alternatives to conventional petroleum production and refining, the rate of return on our existing base load business will have to be maintained on a strong footing for several years.

Neither of these projections, taken together with the other factors mentioned previously, lead to the conclusion that Exxon or the petroleum industry is not equal to the task. Rather they suggest that both will be severely tested in meeting their financing requirements. Any erosion of returns or increase in the environmental risk to which the business is exposed would be a detriment to efforts to meet projected spending requirements. Investors are particularly attuned to the investment climate and any adverse changes in the external factors affecting the energy business would mean that companies must earn higher returns in order to provide the necessary amounts of investment capital. Any action which limits levels of return, or increases the risk to which the petroleum business is exposed, would jeopardize its ability to raise the necessary investment capital.

SENATE FINANCE COMMITTEE QUESTION NO. 6

INDUSTRY CAPITAL EXPENDITURE PROJECTIONS FOR 1974-85 PERIOD

[In millions of current dollars]

	1974	1975	1976	1977	Total 1974-77	1978 81	1982 85	Total 1974-85
Estimated capital expenditure capability using Senate Finance Committee assumptions:								
Projection Based on Industry Average Rate of Return For 1964-72[1] (petroleum only) ...	9.695	10.240	10.805	11.420	42.160	52,415	65,180	159,755
Projection Based on 1 5 Times Industry Average Rate of Return 1964-72[1] (petroleum only).	15.275	16.580	18.005	19,565	69,425	96,555	134,270	300,250
Estimated industry capital expenditure requirements: Projection derived from National Petroleum Council study case III[2]:								
Petroleum only					65.000	93,000	116,000	274,000
Total energy					76,000	108,000	137,000	321,000

[1] We have estimated that the average rate of return on stockholders' equity of the U.S. petroleum industry equals 0 9 percent. This is derived from the Chase Manhattan study of 30 major petroleum companies and our estimate that this group of companies constitute approximately 80 percent of the U.S. petroleum industry.

[2] Study was adjusted to include marketing assets while being updated to 1974 and placed on a current dollar basis.

Question No. 7. **What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?**

Year	Percent of U.S. sales derived from foreign crude			
	Total	Crude and unfinished imports	Heavy fuel oil imports	Other petroleum products imports
1964	35.2	8.8	24.4	2.0
1965	36.3	8.9	25.5	1.9
1966	36.3	7.5	26.4	2.4
1967	34.9	6.1	26.3	2.5
1968	34.4	6.0	25.3	3.1
1969	36.3	5.5	27.6	3.2
1970	39.2	5.6	30.6	3.0
1971	39.2	6.6	30.3	2.3
1972	43.2	10.9	29.9	2.4
1973	47.6	16.7	28.1	2.8

Question No. 8. Describe the typical situation in which you have contractual relationship with a foreign subsidiary involving a pricing problem. To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary? Do you recommend any alternative approach for regulation of such transaction to prevent the shifting of United States profits to foreign subsidiaries?

Our basic pricing principle is that transactions between our affiliated companies, both U.S. and foreign, are based on open-market prices. This principle recognizes that crudes and products are internationally traded commodities whose market prices respond to fundamental worldwide supply/demand forces. Under normal commercial and free-market conditions, Exxon believes that such pricing provides the soundest basis for the establishment of intercompany transfer prices.

Until early 1973, a substantial amount of open market trading of crudes and products took place which provided market prices which were used in the determination of inter-affiliate transfer prices. Developments in the international crude supply and political environment over the last year or so, however, have led to a disruption of normal supply demand balancing mechanisms in the worldwide markets for both crudes and products with the result that market prices have risen very rapidly, and recently in quantum jumps. These increases are directly attributable to both the well-publicized unilateral producing country actions and the willingness of anxious buyers to pay higher and higher prices to cover their requirements with scarce supplies. Under these conditions, market prices have been difficult to measure and as a result, Exxon inter-affiliate prices have been increased much less rapidly and have essentially only covered increased costs incurred by the supplying affiliates. It is anticipated that, when market conditions become less chaotic, sufficient open market transactions will again take place to establish an appropriate market price reference for inter-affiliate pricing.

Our pricing principle is in accord with the regulations prescribed by the U.S. Treasury under Section 482 of the Internal Revenue Code. Section 482 enables the Internal Revenue Service to determine the true taxable income of a United States company in situations where such company has contractual relationships with its foreign subsidiaries. Detailed regulations have been issued under this Code provision setting forth specific standards for determining taxable income of U.S. companies dealing with related foreign subsidiaries by providing for distributing, apportioning, or allocating gross income, deductions, credits or allowances so as to clearly reflect income. The basic standard applied in such cases is that of an uncontrolled taxpayer dealing at arm's-length with another uncontrolled taxpayer.

These regulations are the most stringent regulations applied anywhere in the world. They have been most vigorously applied. Based upon the extensive and thorough Internal Revenue Service audits that we have experienced, we are of the view that compliance with present tax regulations does not allow for a shift of U.S. profits to a foreign subsidiary. As a result, we have no recommendation to suggest in respect of any alternative approach to that now contained in the existing regulations.

Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

The table attached shows that foreign earnings, depreciation and offshore debt increases, taken together, were more than sufficient to fully finance new foreign capital expenditures and other investments The portion of earnings from abroad in excess of those reinvested contributed to Exxon's available resources for general corporate purposes. Furthermore, these earnings streams contributed heavily to the "times-cover" formula by which the quality and possible amount of new corporate debt is judged. We should note that actions taken to reduce the foreign net earnings contribution to Exxon's corporate resources would directly impact its capacity to attract debt from both U.S. and foreign capital markets for any purposes, including new capital investments in energy resource development in the U.S.

ANSWER TO QUESTION 9—SENATE FINANCE COMMITTEE HEARINGS

EXXON CORP., CONSOLIDATED RESULTS—FOREIGN

[In millions of dollars]

	1964	1965	1966	1967	1968	1969	1970	1971	1972	Estimated 1973
Expenditures less depreciation:										
Foreign capital spending	562	545	645	931	918	1,039	1 084	1,141	1,267	1,437
Less foreign capital recovery	(345)	(363)	(377)	(424)	(445)	(467)	(464)	(607)	(597)	(660)
Net change in plant	271	182	268	507	473	572	620	534	670	77
Other foreign expenditures, net	132	103	7	47	62	(231)	98	197	16	([1])
Total	349	285	275	554	535	341	718	731	686	777
Foreign income	586	595	594	615	694	596	680	851	819	1,520
Foreign new debt and equity	34	79	70	90	217	115	328	201	[2](180)	175
Total	620	674	664	805	911	711	1,008	1,052	639	1,695
Foreign income and foreign new debt and equity in excess of expenditures less depreciation	271	389	389	251	379	370	290	321	(47)	[3] 918

[1] Data not available at this time; it will be submitted later if the committee wishes.
[2] Foreign borrowings to enable the corporation to comply with the Department of Commerce's OFDI regulations during 1972, were not completed until the 1st 60 days of 1973, as permitted by the regulations.
[3] Preliminary subject to data on other foreign expenditures, net.

EXXON COMPANY, U.S.A.,
Houston, Tex., May 17, 1974.

Mr. ROBERT M. WILLAN,
Tax Counsel, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. WILLAN: Attached is the restatement of various data from our February 14, 1974, testimony before the Finance Committee, which you requested in your letter of March 19. We have followed your suggested format, making minor modifications where necessary to be consistent with our data. The following comments may be helpful in your use of this information.

QUESTIONS 1, 2, AND 3

The data are the same as our February 14 submission, except we have used final 1973 results in place of the estimates furnished previously.

The U.S. income and asset data are for petroleum and natural gas operations only. In 1973, petroleum profits represented about 93 percent of total U.S. profits.

The foreign income and asset data represent petroleum and natural gas operations in 1973 and 1972, and total operations for other years. Petroleum profits represent about 92 percent of 1973 total foreign profits.

Assets represent year average total assets as shown on page 26 of the Exxon Corporation 1973 Annual Report (copy attached).

Question 3 shows that a higher percent of income was invested in foreign operations than in domestic operations during the period 1969 to 1972, while the reverse was generally true prior to 1969. The percentages were about the same in 1973.

In evaluating these data, it must be recognized that Exxon's interests abroad and the future energy needs of this country do not present conflicting priorities. The major factor affecting Exxon's level of expenditures in the U.S. is the number of attractive investment opportunities. These opportunities have been limited by actions and policies of the U.S. government. The fact of the matter is that Exxon would have preferred to invest more in the U.S. in recent years, but was discouraged from doing so due to delays in and limited size of federal lease sales, environmental and legal actions preventing construction of the Alaskan pipeline and drilling in the Santa Barbara Channel, and uncertainties created by the administration of the Mandatory Oil Import Program which discouraged construction of additional U.S. refining capacity.

QUESTION 6

We have followed the format and criteria that the staff requested be used in answering this question. As you may be aware, fixing the criteria for the rate of return, for plant exhaustion rates, for dividend rates, and for borrowing rates produces a mechanical projection of funds available for capital expenditures. We must point out that this projection should not be construed as a forecast of Exxon Corporation's domestic capital expenditures over the next several years. We are unsure how the Committee plans to use these data, and would suggest that they be interpreted in light of our concerns.

The Committee might consider evaluating the energy industry's need for capital expenditures and profits as a whole, rather than trying to assess the forecasts of a few individual companies and then trying to interpolate the remainder. The studies carried out by the Chase Manhattan Bank and others would be helpful in this regard.

The staff has asked verbally for some guidance on Exxon's profit outlook for 1974. In response, we have attached a copy of our press release of April 23, 1974, announcing Exxon's profit for the first quarter of 1974. Uncertainties regarding foreign government participation and possible changes in both foreign and domestic government pricing and taxing policies make it particularly difficult to speculate beyond the first quarter at this time.

We hope this information proves helpful in your deliberation. Please let us know if we can be of further assistance.

Very truly yours,

E. K. MILLS II.

QUESTION NO. 1*

EXXON CORP.

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Net income	2,443	1,532	1,517	1,309	1,243	1,278	1,155	1,054	973	960
Net assets [1]	23,319	20,936	19,778	18,440	17,162	16,080	14,698	13,628	12,940	12,413
Rate of return net assets	10.5	7.3	7.7	7.1	7.2	7.9	7.9	7.7	7.5	7.7
United States: [2]										
Net income	830	719	677	587	622	532	504	437	348	323
Net assets [1]	6,630	6,300	5,964	5,794	5,547	5,111	4,604	4,306	4,144	4,003
Rate of return net assets	12.5	11.4	11.3	10.1	11.2	10.4	11.0	10.1	8.4	8.1
Foreign: [3]										
Net income	[3] 1,470	[3] 859	851	680	596	694	615	594	595	586
Net assets [1]	[3] 12,646	[3] 11,339	11,577	10,605	9,828	9,047	8,130	7,408	6,908	6,528
Rate of return net assets	11.6	7.6	7.4	6.4	6.1	7.7	7.6	8.0	8.6	9.8

* See revision per letters of June 18 and 24, 1974.

[1] Average of beginning and ending year (Net assets are same as total assets).

[2] U.S. net income, assets, and rates of return are for petroleum and natural gas operations only for all years.

[3] Foreign net income, assets, and rates of return are for petroleum and natural gas operations only for 1972-73, and for all Exxon foreign operations for 1964-71. Foreign net income, assets, and rates of return broken out for petroleum and natural gas operations only for 1964-71 are not available.

QUESTION NO. 2

EXXON CORP.

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
United States [1]	830	719	677	587	622	532	504	437	348	323
Foreign [2]	1,470	859	851	680	596	694	615	594	595	586
Total of above	2,300	1,578	1,528	1,267	1,218	1,226	1,119	1,031	943	909
Sales: [3]										
United States [1]	7,265	6,095	5,773	5,491	5,033	4,699	4,378	3,975	3,871	3,652
Rate of profitability	11.4	11.8	11.7	10.7	12.4	11.3	11.5	11.0	9.0	8.8
Foreign [2]	19,485	15,021	14,229	12,351	11,096	10,447	9,787	9,023	8,430	7,960
Rate of profitability	7.5	5.7	6.0	5.5	5.4	6.6	6.3	6.6	7.1	7.4
Total of above	26,750	21,116	20,002	17,842	16,129	15,146	14,165	12,998	12,301	11,612
Rate of profitability	8.6	7.5	7.6	7.1	7.6	8.1	7.9	7.9	7.7	7.8
Taxes (Ex. excise):										
United States [1]	608	495	477	460	419	362	326	273	208	175
Rate of profitability	57.7	59.2	58.7	56.1	59.8	59.5	60.7	61.5	62.6	64.9
Foreign [2]	7,572	5,749	4,596	3,987	3,494	3,415	3,316	3,067	2,847	2,542
Rate of profitability	16.3	13.0	15.6	14.6	14.6	16.9	15.6	16.2	17.3	18.7
Total of above	8,180	6,244	5,073	4,447	3,913	3,777	3,642	3,340	3,055	2,717
Rate of profitability	21.9	20.2	23.1	22.2	23.7	24.5	23.5	23.6	23.6	25.1
Capital employed:										
United States [1]	4,877	4,821	4,839	4,754	4,637	4,277	3,861	3,640	3,524	3,429
Rate of profitability [4]	17.2	15.1	14.1	12.5	13.5	12.5	13.1	12.0	9.9	9.5
Foreign [2]	8,902	8,601	8,740	8,011	7,487	6,985	6,424	5,784	5,417	5,121
Rate of profitability [4]	19.1	12.1	11.5	10.3	9.7	11.5	10.9	11.8	12.3	12.8
Total of above	13,779	13,422	13,579	12,765	12,124	11,262	10,285	9,424	8,941	8,550
Rate of profitability [4]	18.4	12.6	12.4	11.1	11.2	11.9	11.7	11.9	11.4	11.5

[1] U.S. net income, sales, taxes, and capital employed data are for petroleum and natural gas operations only.

[2] Foreign net income, sales, taxes, and capital employed data are for petroleum and natural gas operations only for 1972-73, and are for all Exxon foreign operations for 1964-71. Foreign income data broken out for petroleum and natural gas operations only for 1964-71 are not available.

[3] Including excise taxes.

[4] Based on delivered net income (i.e., includes after tax interest effect).

QUESTION NO. 3

EXXON CORP.

[In millions of dollars]

	Capital expenditures and exploration expenses	Net [1] income	Exploration expense	Adjusted earnings (2 and 3)	Capital recovery	Earnings and recovery (4 and 5)	Ratios: Capital expenditures and exploratory expenditures as percent of — Net income (1÷2)	Adjusted earnings (1÷4)	Earnings and recovery (1÷6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Domestic: [2]									
1964	601	323	155	478	223	701	186.1	125.7	85.7
1965	529	348	150	498	253	751	152.0	106.2	70.4
1966	585	437	140	577	270	847	133.9	101.4	69.1
1967	688	504	130	634	281	915	136.5	108.5	75.2
1968	1,044	532	125	657	348	1,005	196.2	158.9	103.9
1969	683	622	125	747	326	1,073	109.8	91.4	63.7
1970	719	587	121	708	388	1,096	122.5	101.6	65.6
1971	642	677	100	777	409	1,186	94.8	82.6	54.1
1972	689	719	115	834	383	1,217	95.8	82.6	56.6
1973	863	830	108	938	380	1,318	104.0	92.0	65.5
Foreign:									
1964	636	586	74	660	345	1,005	108.5	96.4	63.3
1965	629	595	84	679	364	1,043	105.7	92.6	60.3
1966	739	594	94	688	377	1,065	124.4	107.4	69.4
1967	1,006	615	76	691	424	1,115	163.6	145.6	90.2
1968	988	694	70	764	444	1,208	142.4	129.3	81.8
1969	1,127	596	88	684	457	1,141	189.1	164.8	98.8
1970	1,168	680	85	765	463	1,228	171.8	152.7	95.1
1971	1,234	851	93	944	606	1,550	145.0	130.7	79.6
1972 [2]	1,383	859	150	1,009	566	1,575	161.0	137.1	87.8
1973 [2]	1,544	1,470	148	1,618	648	2,266	105.0	95.4	68.1

[1] After taxes, before dividends.
[2] Petroleum and natural gas operations only.

QUESTION NO. 6

EXXON CORP.

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total assets, Jan. 1		6,849	7,457	8,121	8,815	9,631	10,493	11,428	12,417	13,556	14,764	16,079	17,512
Rate of return on average total assets (in percent)		10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Net income	15,089	753	820	833	973	1,060	1,154	1,257	1,359	1,491	1,621	1,769	1,926
Plant exhaustion 10 percent of net property, plant, and equipment on Jan. 1	10,922	452	513	579	651	730	816	910	1,012	1,123	1,213	1,375	1,518
50 Percent dividends	7,511	376	410	416	485	530	577	628	684	745	812	884	963
Funds generated	18,470	829	923	1,026	1,139	1,260	1,393	1,539	1,697	1,859	2,055	2,260	2,481
Potential for capital expenditures	23,115	1,060	1,177	1,303	1,440	1,589	1,751	1,929	2,121	2,331	2,553	2,833	3,078
Net new borrowings including capitalized leases [1]	4,675	231	254	277	302	329	358	390	424	462	503	548	597
Total debt including capitalized leases		943	1,197	1,474	1,776	2,105	2,463	2,853	3,277	3,739	4,242	4,790	5,387
Debt total assets ratio Dec. 31 (in percent)		12.6	14.7	16.7	18.4	20.1	21.6	22.9	24.2	25.3	26.4	27.4	28.2

[1] Based on the committee's assumption that direct borrowings and off-balance-sheet financing will provide up to 75 and 13 percent respectively of additional domestic debt and equity capital.

Note: At the request of the Senate Finance Committee the above data has been calculated by applying return and debt assumptions specified by the Finance Committee staff to Exxon Corp. total assets for domestic petroleum and natural gas operations as of Jan. 1, 1974 ($6,849,000,000) and its average rate of return on average total domestic petroleum and natural gas assets over the period 1964-73 (10.5 percent). The data produced provides a mechanical projection of funds available for capital expenditures and, accordingly, should not be construed as a forecast of Exxon Corp. domestic capital expenditures over the next several years.

QUESTION NO. 6

EXXON CORP.

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total assets, January 1		6,849	7,787	8,853	10,065	11.443	13,010	14,792	16,817	19,119	21,737	24,713	28,097
Rate of return on average total assets (in percent)		15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8	15.8
Net income	30,975	1,157	1,316	1,496	1,701	1,934	2,199	2,500	2,842	3,231	3,674	4,177	4,748
Plant exhaustion—10 percent of net property, plant, and equipment on January 1	15,532	452	546	652	773	911	1,068	1.246	1,449	1.679	1.941	2,238	2,577
50 percent dividends	15,485	578	658	748	850	967	1,099	1.250	1,421	1,615	1.837	2,088	2.374
Funds generated	31,022	1,031	1,204	1,400	1,624	1,878	2.168	2.496	2.870	3,295	3.778	4,327	4,951
Potential for capital expenditures	40,626	1,390	1,612	1,864	2,151	2,478	2,850	3,271	3,751	4,297	4,917	5,622	6,423
Net new borrowings—including capitalized leases[1]	9,604	359	408	464	527	600	682	775	881	1,002	1,139	1,295	1,472
Total debt—including capitalized leases		1,071	1,479	1,943	2,470	3.070	3,752	4,527	5,408	6,410	7,549	8,844	10,316
Debt/total assets ratio December 31 (in percent)		13.8	16.7	19.3	21.6	23.6	25.4	26.9	28.3	29.5	30.5	31.5	32.3

[1] Based on the committee's assumption that direct borrowings and off-balance-sheet financing will provide up to 25 and 13 percent respectively of additional domestic debt and equity capital.

Note: At the request of the Senate Finance Committee the above data has been calculated by applying return and debt assumptions specified by the Finance Committee staff to Exxon Corp. total assets for domestic petroleum and natural gas operations as of January 1, 1974 ($6,849,000,000) and one and one-half times its average rate of return on average total domestic petroleum and natural gas assets over the period 1964-73 (15.8 percent). The data produced provides a mechanical projection of funds available for capital expenditures and, accordingly, should not be construed as a forecast of Exxon Corp.'s domestic capital expenditures over the next several years.

EXXON CORPORATION,
New York, N.Y., June 18, 1974.

MR. ROBERT M. WILLAN,
Tax Counsel, Committee on Finance, U.S. Senate,
Washington, D.C.

DEAR MR. WILLAN: In accordance with our telephone conversation of June 14, I am forwarding the attached information on Exxon Corporation returns on shareholder equity. The first line represents the return for the total corporation. As I indicated over the telephone, this is the only valid return on equity which can be computed. Further attempts to state such a return get into a number of arbitrary allocations of the corporation's financing as well as arbitrary allocations of headquarters' net assets and administrative costs. However, since you indicated an urgent need for a statistical estimate of such a return for the U.S. and foreign petroleum segments of Exxon Corporation, we have made some arbitrary assumptions and the results are shown on the attachment.

As I mentioned over the telephone, I would request that you not refer to these numbers as Exxon's return on shareholders' equity for these two segments of the corporation. However, you may use them in your study if you desire. If we can be of further help to you in this effort, please give me a call.

Very truly yours,

U. J. LEGRANGE.

EXXON CORP.

RETURN DATA

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Return on equity: Actual consolidated	18.8	12.8	13.5	12.4	12.5	13.3	12.6	12.0	11.5	11.7
Estimated return on equity:										
United States	17.6	15.3	15.3	14.0	15.0	14.0	14.1	12.1	9.9	9.7
Foreign	19.5	12.3	12.5	11.6	10.8	12.8	11.8	11.9	12.4	13.0

EXXON CORPORATION,
New York, N.Y., June 24, 1974.

MR. ROBERT M. WILLAN,
Tax Counsel, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. WILLAN: In accordance with your telephone request of June 20, I am forwarding the attached additional financial data for Exxon Corporation.

The attached information follows the pattern used in my letter of June 18 and the Questions 1 and 2 included with Mr. E. K. Mills' letter to you on May 17. The first line represents average consolidated net assets for the total corporation and is in accordance with data contained in our Annual Report. The estimates for the U.S. and foreign segments are estimates obtained after using certain arbitrary assumptions. *Certain Chemical operations and parent company items are excluded.*

As mentioned in my previous letter, I would request that you not refer to these estimates as Exxon's net assets for the two segments. However, you may use them in your study if you so wish.

Very truly yours,

U. J. LEGRANGE.

By R. W. PLASSMITH.

EXXON CORP.

RETURN DATA

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Average net assets:										
Consolidated total, actual	12,994	11,931	11,272	10,522	9,974	9,616	9,158	8,770	8,467	8,177
United States, estimated [1]	4,716	4,699	4,325	4,193	4,147	3,800	3,574	3,612	3,515	3,370
Foreign, estimated [2]	7,538	6,984	6,808	5,862	5,519	5,422	5,212	4,992	4,798	4,568

[1] Includes petroleum and natural gas for all years.
[2] Includes petroleum and natural gas for 1972 and 1973; and all foreign operations for 1964-71.

QUESTION NO. 1

EXXON CORP.

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Net income	2,443	1,532	1,517	1,309	1,243	1,278	1,155	1,054	973	960
Net assets [1]	12,994	11,931	11,272	10,522	9,974	9,616	9,158	8,770	8,467	8,177
Rate of return net assets	18.8	12.8	13.5	12.4	12.5	13.3	12.6	12.0	11.5	11.7
United States: [2]										
Net income	830	719	677	587	622	532	504	437	348	323
Net assets [1]	4,716	4,699	4,425	4,193	4,147	3,800	3,574	3,612	3,515	3,330
Rate of return net assets [3]	17.6	15.3	15.3	14.0	15.0	14.0	14.1	12.1	9.9	9.
Foreign: [4]										
Net income	[3] 1,470	[3] 859	851	680	596	694	615	594	595	586
Net assets [1]	7,538	6,984	6,808	5,862	5,519	5,422	5,212	4,992	4,798	4,508
Rate of return net assets [3]	19.5	12.3	12.5	11.6	10.8	12.8	11.8	11.9	12.4	13.0

[1] Average of beginning and ending year. (The allocation of petroleum net assets between United States and foreign was calculated by determining the relationship between total return on capital employed to the total return on shareholder equity and applying the ratio thus obtained to total capital employed in the United States and foreign operations, respectively.)

[2] U.S. net income, assets, and rates of return are for petroleum and natural gas operations only for all years.

[3] Since the allocation of net income on petroleum operations between United States and foreign involves some arbitrary assumptions, Exxon questions the use of such figures as accurately representing return on shareholder's equity in United States and foreign petroleum operations.

[4] Foreign net income, assets, and rates of return are for petroleum and natural gas operations only for 1972-73, and for all Exxon foreign operations for 1964-71. Foreign net income, assets, and rates of return broken out for petroleum and natural gas operations only for 1964-71 are not available

TEXACO, INC.

TEXACO, INC.,
New York, N.Y., April 5, 1974.

Hon. RUSSELL B. LONG,
U.S. Senate,
Committee on Finance,
Washington, D.C.

DEAR SENATOR LONG: This is in response to your March 13, 1974 letter in the matter of your Committee's work on the United States operations of petroleum companies.

The information in your questionnaire has been compiled and is enclosed. Most of the answers are not in the form suggested by Mr. Robert M. Willan's subsequent letter because the considerable detail involved in changing much of the information already developed would have further delayed this response.

Sincerely yours,

ANNON M. CARD.

Question No. 1. What was the overall rate of return, after taxes, which you company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

(*a*) Where applicable, please give the source of this information.

(*b*) Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing industries? If so, please explain.

(*c*) How does the rate of return on U.S. petroleum investments, as described above, compare with your rate of return on other investments?

Earnings attributable to U.S. operations as percent of estimated average stockholders' equity in the U.S.

Year:		Year—Continued	
1973	11.6	1968	16.9
1972	12.3	1967	16.9
1971	12.2	1966	16.4
1970	12.7	1965	15.6
1969	12.0	1964	13.4

(*a*) The source of the information is estimated allocations of earnings and average stockholders' equity data contained in Company records.

(*b*) The figures for earnings attributable to U.S. operations are not different from the figures used in preparing the Company's Annual Report to stockholders. Figures for estimated average stockholders' equity in the U.S. have not been included in the Annual Report to Stockholders. With respect to earnings and average stockholders' equity, figures provided to the Federal Trade Commission prior to the fourth quarter of 1973 represented total worldwide data of Texaco Inc. and subsidiary companies consolidated. Effective with the fourth quarter of 1973 such figures were provided to the Federal Trade Commission on a total worldwide basis as before, and in addition such data were provided with respect to U.S. operations.

(*c*) The rate of return as described above reflects all operations.

Question No. 2. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investment, including borrowed capital?

Year	Earnings attributable to U.S. operations as percent of Texaco and subsidiary companies' net sales revenue in the United States [1]	Earnings attributable to U.S. operations as percent of Texaco and subsidiary companies' direct taxes	Earnings attributable to U.S. operations as percent of Texaco and subsidiary companies' U.S. payroll and employee benefits	Earnings attributable to U.S. operations as percent of average invested capital in United States
1973	10.5	178.2	73.8	9.6
1972	12.1	189.4	76.2	10.2
1971	13.1	193.1	81.9	10.4
1970	14.9	181.1	94.9	11.1
1969	14.1	245.4	94.1	10.3
1968	19.4	308.7	134.4	14.3
1967	18.6	315.8	131.9	14.5
1966	17.7	279.8	124.7	14.3
1965	17.8	325.6	119.1	13.5
1964	15.6	294.5	102.5	11.8

[1] Sales revenue in the United States excludes gross income from services, equity in net income of nonsubsidiary companies, dividends, interest and other net income applicable to U.S. operations. The earnings are the total attributable to U.S. operations.

Question No. 3. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year? What is the ratio between your total cash income (generated by earnings, depreciation, depletion allowance, etc.,) and your total investment in petroleum assets, including exploration expense?

Year	Texaco and subsidiary companies' capital and exploratory expenditures in the United States (millions)	Estimated cash flow relative to U.S. operations as percent of Texaco and subsidiary companies' capital and exploratory expenditures in United States [1] (percent)
1973	$907.2	93.9
1972	714.9	108.9
1971	661.5	115.8
1970	660.5	126.0
1969	468.1	151.0
1968	671.2	121.0
1967	561.9	130.3
1966	514.8	131.6
1965	496.2	121.7
1964	374.1	141.0

[1] Represents sum of following amounts estimated to be attributable to U.S. operations: net income, depreciation, depletion and amortization, provision for income taxes—deferred; equity in undistributed earnings of nonsubsidiary companies. Cash income as described is before making any provision for payment of cash dividends and any other dispositions of funds that may be required, such as increases in working capital, repayment of debt, etc.

Question No. 4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

Year	Total cash dividends paid (millions)	Cash dividends paid as percent of earnings attributable to U.S. operations based upon above premise
1973	$470.4	36.4
1972	451.6	50.8
1971	435.7	48.2
1970	435.8	53.0
1969	422.3	54.9
1968	394.0	48.1
1967	365.6	48.7
1966	337.6	51.6
1965	331.3	56.1
1964	296.4	54.8

Question No. 5 Fourth Quarter—1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin (differentiate between company controlled retailers and independent retailers)?

Texaco's fourth quarter 1973 earnings attributable to the United States did not show an increase when compared with the fourth quarter of 1972.

Increases in Texaco's dealer tankwagon prices for gasoline during the fourth quarter of 1973 were in accordance with the cost of Living Council's and the Federal Energy Office's Mandatory Petroleum Price Regulations.

These price increases were made to effect dollar-for-dollar recovery of increased costs of domestic and imported crude and products, as computed in accordance with the CLC-FEO regulations.

Texaco does not set the pump price for gasoline except at some 24 Texaco salary operated service stations.

In regard to increases in profit reflected in dealer tankwagon prices, Texaco's earnings are not segmented in this manner.

Question No. 6. Provide an estimate of your capital requirements in the United States for the period 1974–85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–73; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

COMMENTS

It is not exactly clear what this question is attempting to arrive at.

The question implies that capital requirements will differ depending upon the level of rate of return. Viewing the industry as a whole, capital requirements will be determined by the demand for energy and the capital costs of constructing the facilities needed to meet the demand. In a sense, rate of return will not determine capital requirements, but rather will determine whether or not capital requirements can be met.

By another interpretation, this question appears to be asking for projections of "capital expenditures," in the United States rather than "capital requirements." Clearly, the higher the rate of return, the greater will be cash availability and the more will be reinvested. However, it is not possible to project capital expenditures for petroleum investment in the U.S. on the basis of hypothetical cash flow based on an assumed rate of return in the U.S. The amount actually invested on U.S. petroleum operations will not only depend on energy demand but also to some extent on the attractiveness of alternative investments in other energy industries. While rate of return serves the function of generating capital, it also serves to allocate capital to its most economic uses. For example, earnings from foreign operations could well be reinvested in the United States petroleum industry, if the rate of return were more attractive here. There is no way that this could be factored into a simple model. Any attempt to project capital expenditures for U.S. operations, based on projected cash avails from U.S. investment would also require many other assumptions, e.g., on dividend payments, working capital requirements, depreciation, etc. In view of the many simplifying assumptions required, it is felt that any projection of capital expenditures could be grossly misleading, particularly when the United States is arbitrarily segregated from the rest of the world.

In evaluating the oil industry's rate of return, however, the following should be kept in mind:

(*a*) Profits in industry in general have been inadequate in recent years. Growing shortages in many areas indicate insufficient capital investment.

(*b*) Rate of return calculations are based on historical costs and can be somewhat misleading during periods of rapid inflation. As historical costs understate the value of assets in such periods, rate of return tends to be significantly overstated.

Rate of return based on the replacement value of assets would probably have been considerably lower than book rate of return in 1973. However, the economic feasibility of new projects must be based on anticipated profitability of these new projects at current cost levels, which are substantially higher than costs of comparable investments made in the past.

(*c*) During periods of rapid inflation, investors require a greater return on investment to compensate for the declining purchasing power of the dollar.

(*d*) High grade industrial bonds, with a minimum of risk, currently yield some $8\frac{1}{2}\%$, compared with $4\frac{1}{2}\%$ ten years ago.

(*e*) Investment in energy industries tends to be riskier than in many other industries. This is particularly true with respect to exploration in new areas and massive investments on projects requiring new technological applications, e.g., synthetic oil from coal, shale and tar sands.

(*f*) A higher than average rate of return is the means by which capital resources are attracted to areas of greatest need. As energy self-sufficiency is a national goal, the rate of return should be attractive enough to pull resources into the energy industries. This is the way the market mechanism works.

In view of the above, rates of return higher than present rates are fully justifiable.

Another approach has been prepared, enclosed as attachments 11 and 11A, that interprets question No. 6 as a request for "capital availability" as distinct from "capital requirements". This assumption as to capital availability permits a mathematical projection from current statistical data and defined guidelines regarding borrowing and the rate of return. Capital requirements, on the other hand, are determined by the demand for energy, the capital costs of constructing necessary facilities to meet such demand.

Supplementing comments already made on the statistical aspects of this question, it is obvious that the projected data in this exercise do not include the effects of economic or political events which may occur in the next twelve years. Any governmental actions such as unrealistic price controls, an excess profits tax or removal of the depletion allowance will have significant impact on the ability to maintain even the historic rate of return or the amount of funds generated from non-cash charges.

Question No. 7. What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?

Foreign crude run at domestic refineries as percent of Texaco and subsidiary companies' refined product sales volume in United States

Year:		Year—Continued	
1973	21.7	1968	10.7
1972	14.2	1967	9.8
1971	10.7	1966	13.8
1970	7.6	1965	14.3
1969	9.6	1964	14.2

Question No. 8. Describe the typical situations in which you have contractual relationships with a foreign subsidiary involving a pricing problem. To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary? Do you recommend any alternative approach for regulation of such transactions to prevent the shifting of United States profits to foreign subsidiaries?

Our transfer prices to foreign subsidiaries are based on our best judgment of fair arm's length prices. These obviously cannot be precise and from time to time we have had disagreements with the local managements of foreign subsidiaries as to the fair price that should be charged. Likewise we have had disagreements from time to time with foreign governments as well as the U.S. Internal Revenue Service, but in all instances have managed to reach amicable settlements.

A U.S. company complying with existing income tax regulations could not shift U.S. profits to its foreign subsidiary since transactions between related entities are required to be on an arm's length basis. Under Section 482 of the Internal Revenue Code and the regulations promulgated thereunder, the Commissioner of Internal Revenue has the power to restructure any transaction between related entities which he deems "necessary in order to prevent evasion of taxes or clearly to reflect the income" of the parties.

We believe, therefore, that the Commissioner has adequate authority to police intercompany transactions and to institute changes in those instances where he believes income is being shifted to the detriment of the U.S. Treasury. It should be noted also that our intercompany pricing arrangements are subject to close scrutiny by foreign governments as well as the U.S. Internal Revenue Service.

Question No. 9. Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

Year	Texaco and subsidiaries' capital and exploratory expenditures outside the United States (millions)	Texaco and subsidiaries' capital and exploratory expenditures outside the United States as percent of earnings attributable to operations outside the United States and net equity and debt capital raised outside the United States
1973	$426.7	29
1972	478.0	34
1971	500.7	49
1970	305.6	35
1969	323.8	39
1968	394.1	50
1967	331.8	55
1966	222.6	40
1965	222.7	92
1964	230.7	89

Question No. 10. What would have been the impact on rate of return on stockholders' investment in petroleum assets in the United States if there had been no depletion allowance?

Earnings attributable to U.S. operations as percent of estimated average stockholders' equity in the U.S. assuming percentage depletion discontinued effective January 1, 1964

Year:		Year—Continued	
1973	9.1	1968	13.6
1972	9.6	1967	13.7
1971	9.9	1966	13.2
1970	10.5	1965	12.6
1969	8.7	1964	10.1

It should be noted that in arriving at the above rate of return, it has been assumed that percentage depletion was in existence prior to January 1, 1964. It should also be realized that if percentage depletion has been discontinued effective January 1, 1964, that it could have had a material effect upon the Company's policy as to investment programs, dividends, etc., which would have in turn affected stockholders' equity. The answer furnished represents a mathematical calculation made in the manner requested without regard to the potential adverse impact of the assumed absence of percentage depletion on the operations of the Company, therefore, on the earnings and stockholders' equity data used in the calculation.

METHODOLOGY OF COMPUTATIONS IN ATTACHMENTS II AND IIA

1. Stockholders Equity January 1—1974 Figure represents Stockholders equity in U.S. Subsequent years reflect the addition of 50 percent of net income.
2. Rate of Return—14 percent and 21 percent to reflect committee guidelines.
3. Net Income—14 percent (or 21 percent) of average equity (beginning + end of year divided by two).
4. Dividends—50 percent of net income.
5. Retained Earnings—50 percent of net income.
6. Net Property, Plant and Equipment January 1—1974 figure represents net property, plant and equipment in U.S. Subsequent years reflect addition of new capital investment (line 11) and subtraction of allowance for depreciation, depletion & amortization (line 7).
7. Depreciation, Depletion and Amortization—7 percent of Net Property, Plant and Equipment.
8. Funds Generated—retained earnings plus depreciation, depletion, and amortization.
9. Additions to Working Capital—20 percent of retained earnings.
10. Borrowing for Capital Investment—Increase in long term debt which will keep debt/equity ratio at 1:3 1975 and after borrowing equal to 1:3 retained earnings.
11. Available for Capital Investment—funds generated (line 8) plus borrowing (line 10) less additions to working capital.
12. Total Debt December 31—1973 figure of $1.15 billion represents long term debt in U.S. Subsequent years reflect new borrowing to achieve and maintain an assumed maximum feasible debt ratio.
13. Debt Equity Ratio December 31—1973 figure of 0.29 is increased to .333 in 1974 and held constant thereafter.

QUESTION NO. 6a

TEXACO, INC.—U.S. OPERATIONS CAPITAL AVAILABILITY WITH RETURN ON INVESTMENT AT 1964-73 AVERAGE

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Stockholder equity Jan. 1		3,960	4,247	4,555	4,885	5,239	5,619	6,026	6,463	6,932	7,435	7,974	8,552
2. Rate of return		(0.14)											
3. Net income	10,431	575	616	661	709	760	815	874	938	1,006	1,079	1,157	1,241
4. Less dividends	5,219	288	308	331	355	380	408	437	469	503	540	579	621
5. Retained earnings	5,212	287	308	330	354	380	407	437	469	503	539	578	620
6. Net property plant and equipment Jan. 1		5,390	5,886	6,234	6,608	7,009	7,440	7,902	8,397	8,929	9,498	10,109	10,764
7. Depr. Depl. Amor	6,592	377	412	436	463	491	521	553	588	625	665	708	753
8. Funds generated	11,804	664	720	766	817	871	928	990	1,057	1,128	1,204	1,286	1,373
9. Less add. to work capital	1,043	057	062	066	071	076	081	087	094	101	108	116	124
10. Borrowing for capital investment	1,907	266	102	110	118	127	136	145	157	167	180	193	206
11. Available for capital investment	12,668	873	760	810	864	922	983	1,048	1,120	1,194	1,276	1,363	1,455

EXISTING DEBT AND BORROWINGS FOR CAPITAL INVESTMENT REPAID BY ACQUIRING NEW DEBT. DEBT TO EQUITY RATIO MAINTAINED AT 1:3. (DEBT TO TOTAL CAPITAL AT 1:4.)

		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
12. Total debt (1973 → $1.15 B) Dec. 31		1,416	1,518	1,628	1,746	1,873	2,000	2,154	2,311	2,478	2,658	2,851	3,057
13. Debt/equity ratio Dec. 31 (1973 = 0.29)		333											

QUESTION No.6b

TEXACO, INC.—U.S. OPERATIONS CAPITAL AVAILABILITY WITH RETURN ON INVESTMENT AT 1½ TIMES 1964-73 AVERAGE

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Stockholder equity Jan. 1		3,960	4,399	4,886	5,427	6,028	6,696	7,438	8,262	9,177	10,194	11,323	12,578
2. Rate of return		(0.21)											
3. Net income	20,030	878	975	1,083	1,203	1,336	1,484	1,649	1,831	2,034	2,259	2,510	2,788
4. Less dividends	10,018	439	488	542	602	668	742	825	916	1,017	1,130	1,255	1,394
5. Retained earnings	10,012	439	487	541	601	668	742	824	915	1,017	1,129	1,255	1,394
6. Net property, plant and equipment Jan. 1		5,390	6,057	6,610	7,223	7,904	8,661	9,502	10,436	11,473	12,626	13,905	15,328
7. Depr. depl., amor	8,058	377	424	463	506	553	606	665	731	803	884	973	1,073
8. Funds generated	18,070	816	911	1,004	1,107	1,221	1,348	1,489	1,646	1,820	2,013	2,228	2,467
9. Less add. to work capital	2,002	088	097	108	120	134	148	165	183	203	226	251	279
10. Borrowing for capital investment	3,507	316	163	180	200	223	247	275	305	339	376	419	464
11. Available for capital investment	19,575	1,044	977	1,076	1,187	1,310	1,447	1,599	1,768	1,956	2,163	2,396	2,652

EXISTING DEBT AND BORROWING FOR CAPITAL INVESTMENT REPAID BY ACQUIRING NEW DEBT. DEBT TO EQUITY RATIO MAINTAINED AT 1:3. (DEBT TO TOTAL CAPITAL AT 1:4.)

		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
12. Total debt (1973=$1.15B) Dec. 31		1,466	1,629	1,809	2,009	2,232	2,479	2,754	3,059	3,398	3,774	4,193	4,657
13. Debt/equity ratio Dec. 31 (1973=0.29)		333											

QUESTION NO. 1

TEXACO, INC. AND SUBSIDIARY COMPANIES

[Dollar amounts in millions]

	Year									
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total:										
Net income	$1,292.4	$889.0	$903.9	$822.0	$769.8	$819.6	$750.5	[1] $654.0	$590.9	$540.7
Average stockholders' equity	7,583.6	6,959.9	6,512.2	6,081.0	5,724.5	5,324.3	4,904.9	4,549.2	4,264.7	4,031.2
Rate of return on average stockholders' equity (percent)	17.0	12.8	13.9	13.5	13.4	15.4	15.3	14.4	13.9	13.4
Attributable to U.S. operations:										
Net income	$453.9	$438.3	$439.8	$460.0	$418.0	$548.0	$493.8	$440.5	$394.3	[illegible]
Average stockholders' equity	3,924.8	3,573.2	3,607.6	3,614.0	3,481.5	3,238.2	2,919.7	2,684.1	2,535.7	2,453.8
Rate of return on average stockholders' equity (percent)	11.6	12.3	12.2	12.7	12.0	16.9	16.9	16.4	15.5	13.4
Attributable to operations outside the United States:										
Net income	$838.5	$450.7	$464.1	$362.0	$351.8	$271.6	$256.7	$213.5	$196.6	$212.3
Average stockholders' equity	3,658.8	3,386.7	2,904.6	2,474.0	2,243.0	2,086.1	1,985.2	1,865.1	1,729.0	1,577.4
Rate of return on average stockholders' equity	22.9	13.3	16.0	14.6	15.7	13.0	12.9	11.4	11.4	13.5

[1] Net income excludes nonrecurring profit of $17,800,000, after applicable income taxes, from liquidation of Great Lakes Pipe Line Co.

Note: The source of the information is estimated allocations of earnings and average stockholders' equity data contained in company records.

QUESTION NO. 2

TEXACO, INC. AND SUBSIDIARY COMPANIES[1]

[Dollar amounts in millions]

	Year									
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
Attributable to U.S. operations	$453.9	$438.3	$439.8	$460.0	$418.0	$548.0	$493.8	[2] $440.5	$394.3	$328.4
Attributable to operations outside the United States	338.5	450.7	464.1	362.0	351.8	271.6	256.7	213.5	196.6	212.3
Total	$1,292.4	$889.0	$903.9	$822.0	$769.8	$819.6	$750.5	[2] $654.0	$590.9	$540.7
Sales:[3]										
United States	$4,304.4	$3,631.2	$3,348.7	$3,091.9	$2,968.0	$2,823.8	$2,651.3	$2,487.2	$2,219.5	$2,108.0
Rate of profitability (percent)	10.5	12.1	13.1	14.9	14.1	19.4	18.6	17.7	17.8	15.6
Outside the United States	$6,944.1	$4,935.3	$4,062.3	$3,146.7	$2,813.8	$2,696.2	$2,513.0	$1,969.8	$1,603.5	$1,523.2
Rate of profitability (percent)	12.1	9.1	11.4	11.5	12.5	10.1	10.2	10.8	12.3	13.9
Total	$11,248.5	$8,566.5	$7,411.0	$6,238.6	$5,781.8	$5,520.0	$5,164.3	$4,457.0	$3,823.0	$3,631.2
Rate of profitability (percent)	11.5	10.4	12.2	13.2	13.3	14.8	14.5	14.7	15.5	14.9
Taxes (other than excise):										
United States	$268.7	$242.4	$239.7	$266.1	$181.3	$189.5	$167.4			
Rate of profitability (percent)	62.8	64.4	64.7	63.4	69.7	74.3	74.7			
Outside the United States	$3,467.3	$2,473.4	$1,915.7	$1,387.6	$1,354.9	$1,205.1	$1,052.7			
Rate of profitability (percent)	19.5	15.4	19.5	20.7	20.6	18.4	19.6	NA		
Total	$3,736.0	$2,715.8	$2,155.4	$1,653.7	$1,536.2	$1,394.6	$1,220.1			
Rate of profitability (percent)	25.7	24.7	29.5	33.2	33.4	37.0	38.1			
Average invested capital:										
United States	$4,729.4	$4,303.2	$4,231.5	$4,158.7	$4,059.6	$3,823.8	$3,412.3	$3,080.6	$2,931.4	$2,795.9
Rate of profitability (percent)	10.4	10.8	11.0	11.6	10.9	14.9	14.9	14.6	13.7	11.8
Outside the United States	$4,521.3	$4,068.8	$3,509.5	$3,031.2	$2,803.4	$2,579.4	$2,392.7	$2,116.3	$1,824.8	$1,667.2
Rate of profitability (percent)	19.3	11.7	13.7	12.5	13.1	11.1	11.1	10.3	11.0	12.8
Total	$9,250.7	$8,372.0	$7,741.0	$7,189.9	$6,863.0	$6,403.2	$5,805.0	$5,196.9	$4,756.2	$4,463.1
Rate of profitability (percent)	14.8	11.2	12.2	12.0	11.8	13.4	13.4	12.9	12.6	12.3

[1] Corrected per later information received from Texaco.

[2] Net income excludes nonrecurring profit of $17,800,000, after applicable income taxes, from liquidation of Great Lakes Pipe Line Co.

[3] Sales revenue excludes gross income from services, equity in net income of nonsubsidiary companies, dividends, interest, and other net income, whereas net income is applicable to all sources.

TEXACO, INC. AND SUBSIDIARY COMPANIES

QUESTIONS NO. 3 AND 9

[Dollar amounts in millions]

Year	Capital expenditures and exploration expenses	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery (depreciation, depletion and amortization)	Adjusted earnings plus capital recovery (4+5)	Ratios: Capital expenditures and exploration expenses as a (percent of—) Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings plus capital recovery (1÷6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic:									
1964	$374.1	$328.4	$42.3	$370.7	$151.6	$522.3	113.9	100.9	71.6
1965	496.2	394.3	47.6	441.9	148.5	590.4	125.8	112.3	84.0
1966	514.8	[1] 440.5	50.9	491.4	154.8	646.2	116.9	104.8	79.7
1967	561.9	493.8	46.2	540.0	177.1	717.1	113.8	104.1	78.4
1968	671.2	548.0	39.0	587.0	191.5	778.5	122.5	114.3	86.2
1969	468.1	418.0	61.2	479.2	218.3	697.5	112.0	97.7	67.1
1970	600.5	460.0	80.1	540.1	244.5	784.6	130.5	111.2	76.5
1971	661.5	439.8	59.1	498.9	256.7	755.6	150.4	132.6	87.5
1972	714.9	438.3	54.1	492.4	288.5	780.9	163.1	145.2	91.5
1973	907.2	453.9	61.0	514.9	339.1	854.0	199.9	176.2	106.2
10 yr	5,970.4	4,415.0	541.5	4,956.5	2,170.6	7,127.1	135.2	120.5	83.8
Foreign:									
1964	230.7	212.3	1.1	213.4	74.3	287.7	108.7	108.1	80.2
1965	222.7	196.6	.7	197.3	76.1	273.4	113.3	112.9	81.5
1966	222.6	213.5	.5	214.0	108.7	322.7	104.3	104.0	69.0
1967	331.8	256.7	.3	257.0	124.5	381.5	129.3	129.1	87.0
1968	394.1	271.6	....	271.6	130.4	402.0	145.1	145.1	98.0
1969	323.8	351.8	....	351.8	127.0	478.8	92.0	92.0	67.6
1970	305.6	362.0	....	362.0	125.1	487.1	84.4	84.4	62.7
1971	500.7	464.1	....	464.1	136.1	600.2	107.9	107.9	83.4
1972	478.0	450.7	....	450.7	138.4	589.1	106.1	106.1	81.1
1973	426.7	838.5	....	838.5	211.6	1,050.1	50.9	50.9	40.6
10 yr	3,436.7	3,617.8	2.6	3,620.4	1,252.2	4,872.6	95.0	94.9	70.5

[1] Net income excludes nonrecurring profit of $17,800,000, after applicable income taxes, from sales of Great Lakes Pipe Line Co.

MOBIL OIL CORP.

MOBIL OIL CORP.,
New York, N.Y., March 13, 1974.

Hon. RUSSELL B. LONG,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: Pursuant to your request, enclosed please find answers to the energy questionnaire previously received from the Senate Finance Committee. Confirming our recent conversations with Mr. Robert M. Willan, of your staff, in preparing answers to these questions we have found in some instances that our financial and accounting systems and data did not provide information in exactly the form requested. In such instances, we have supplied comments which are directed at the intent of your question. In addition, we have combined the answers to questions 3 and 9 to place them on a comparable basis.

In view of the foregoing, care should be exercised if any attempt is made for statistical purposes to combine these answers with those from other questionnaires.

During our conversations with Mr. Willan, he requested we also provide you with the impact on shareholders' return on equity and on assets if no domestic percentage depletion allowance had been available. For the year 1973, this impact would have been as follows:

1. Return on Shareholder Equity Without Domestic Depletion

[In percent]

	Worldwide	United States	Foreign
Estimated	14.6	8	21.3
Without currency conversion factor being included	12.0	8	16.1

2. Return on Assets Without Domestic Depletion Equals 4.8%.

For your convenience, we have added these figures as notes to the answers to questions 1 and 2 in the body of the questionnaire.

I trust this will supply the information which you need. If not, please feel free to call Mr. Clifford J. Johnson, at 212/883-3190.

Yours very truly,

PAUL LITTLE.

Question No. 1. What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

Answer. The table below shows Mobil's rate of return on average shareholder's equity split between U.S. and foreign operations. These data include *chemical and real estate operations* since arbitrary allocations of assets, liabilities, overheads and taxes would be required to separate them from our petroleum operations. Because this portion of our business is *relatively insignificant,* its inclusion should not create any distortion in the data.

	Percent return on shareholder's equity		
	Worldwide	United States	Foreign
1964	9.0	6.8	11.7
1965	9.4	8.1	11.0
1966	10.0	8.5	11.9
1967	10.3	9.8	10.8
1968	10.8	10.4	11.4
1969	10.9	10.8	10.9
1970	10.9	10.1	12.0
1971	11.5	9.3	14.2
1972	11.5	9.2	14.1
1973 (estimate)	15.5	10.0	21.3
(1)	14.6	8.0	21.3
(2)	12.9	10.0	16.1
(3)	12.0	8.0	16.1

[1] 1973 if exclude domestic percentage depletion.
[2] 1973 data when excluding earnings resulting from currency translation (i.e., conversion of foreign profit and loss statements into weaker 1973 dollars) would have been
[3] Estimated without domestic percentage depletion.

Subquestion (a). Where applicable, please give the source of information.

Answer. Source of earnings and shareholders' equity is the Annual Report (1964–1972). Source of estimated earnings and shareholders' equity is the Earning Release (1973).

Subquestion (b). Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing Industries? If so, please explain.

Answer. Data are taken from reports to stockholders. The Federal Trade Commission collects data which allows them to calculate a worldwide return on shareholders equity. These same data are used to calculate the numbers shown above.

Subquestion (c). How does the rate of return on U.S. petroleum investment, as described above, compare with your rate of return on other investments?

Answer. As shown above, the rate of return on U.S. investment has been below the return on foreign investment.

Question No. 2. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investments, including borrowed capital?

Answer. The table below shows United States earnings as a percent of United States revenues, taxes, labor costs and total assets.

[Dollar amounts in millions]

	Percent				Memo: U.S. earnings
	Revenues [1]	Taxes [2]	Labor costs [3]	Total assets [4]	
1964	5.8	130.8	32.6	4.5	$120.6
1965	6.9	134.0	39.6	5.5	152.5
1966	7.5	154.0	43.0	5.8	171.2
1967	8.3	152.0	50.7	6.6	210.5
1968	8.6	188.2	55.6	6.9	237.9
1969	8.9	157.3	57.2	7.3	257.8
1970	8.2	126.7	51.2	6.4	246.9
1971	7.4	117.8	45.4	5.7	235.3
1972	6.9	157.7	43.2	5.6	238.9
1973 (estimate)	7.0	134.3	47.1	5.9	273.8

[1] Revenues exclude excise and State gasoline taxes. These data are the U.S. component of the revenue figure published in the Financial and Operating Statistics supplement to the Annual Report.

[2] U.S. taxes exclude excise and State gasoline taxes and import duties. They represent the U.S. component of income taxes and property, production, payroll and other taxes published in Mobil's Annual Reports. The U.S. Federal income tax provision included in this total is identified separately in the SEC 10-K Annual Reports.

[3] Labor costs include payroll and benefits. These costs are the U.S. component of the worldwide payroll and benefits figures published in the Financial and Operating Statistics supplement.

[4] U.S. total net assets are published in the SEC 10-K Annual Reports.

Note.—1973 estimated return on total assets without domestic percentage depletion: 4.8.

Question No. 3. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year, and as a percentage of the sum of (a) earnings (after taxes and dividends) and (b) exploration items which were expense? Please indicate whether this table is based on income for tax purposes or for financial book purposes.

Question No. 9. Provide information as to investment and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

Answer. Both questions request information as to exploration and capital investment and their relation to net income and net income plus designated adjustments. Question 3 pertains to U.S. operations; Question 9, to foreign operations. We thought our response to these questions would be most useful if we provided consistent data. (See schedule attached).

QUESTION NO. 3

[In millions of dollars]

Year	Capital expenditures and exploration expenses (Col. 1)	Net income (Col. 2)	Exploration expense (Col. 3)	Adjusted earnings (2+3) (Col. 4)	Capital recovery (Col. 5)	Adjusted earning plus capital recovery (4+5) (Col. 6)	Ratios: Capital expenditures and exploration expenditures as a percent of— Net income (1÷2) (Col. 7)	Adjusted earnings (1÷4) (Col. 8)	Adjusted earnings plus capital recovery (1÷6) (Col. 9)
Domestic:									
1964	229.0	120.6	40.8	161.4	150.4	311.8	189.9	141.9	73.4
1965	293.8	152.5	47.0	199.5	152.7	352.2	192.6	147.3	83.4
1966	448.2	171.2	56.8	228.0	164.9	392.9	261.8	196.6	114.1
1967	406.0	210.1	53.0	263.1	183.1	446.2	193.2	154.3	91.0
1968	424.8	237.9	52.0	289.9	229.3	519.2	178.6	146.5	81.8
1969	434.5	257.8	57.9	315.7	218.1	533.8	168.5	137.6	81.4
1970	506.2	246.9	61.6	308.5	237.9	546.4	205.0	164.1	92.6
1971	567.6	235.3	62.2	297.5	234.2	531.7	241.2	190.8	106.8
1972	672.6	238.9	70.6	309.5	258.1	567.6	281.5	217.3	118.5
1973 estimate	718.9	273.8	64.8	338.6	285.6	624.2	262.6	212.3	115.2
10 yr	4,701.6	2,145.0	566.7	2,711.7	2,114.3	4,826.0	219.2	173.4	97.4
Foreign:									
1964	231.2	173.6	37.0	210.6	97.6	308.2	133.2	109.8	75.0
1965	263.5	167.6	47.8	215.4	111.7	327.1	157.2	122.3	80.6
1966	234.0	184.9	39.6	224.5	119.9	344.4	126.6	104.2	67.9
1967	272.5	175.3	47.2	222.5	127.8	350.3	155.4	122.5	77.8
1968	288.4	192.8	58.6	251.4	136.0	387.4	149.6	114.7	74.4
1969	365.5	198.7	58.7	257.4	137.7	395.1	183.9	142.0	92.5
1970	373.3	235.8	62.7	298.5	154.2	452.7	158.3	125.1	82.5
1971	470.0	305.5	64.3	369.8	164.2	534.0	153.8	127.1	88.0
1972	507.4	335.3	79.4	414.7	186.2	600.9	151.3	122.4	84.4
1973 estimate	621.9	569.0	87.4	656.4	209.1	865.5	109.3	94.7	71.9
10 yr	3,627.7	2,538.5	582.7	3,121.2	1,444.4	4,565.6	142.9	116.2	79.5

Note: Cash flow has to cover not only capital expenditures but changes in working capital requirements and dividends to shareholders. Over the 10-yr period 1964-73 in order to cover cash requirements Mobil increased long-term borrowings about $660,000,000; approximately half was foreign borrowings.

Question No. 4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

[Dollar amounts in millions]

	Total dividends [1]	U.S. earnings paid out in dividends [2]	Dividends paid as a percent of U.S. earnings [3]
1964	$141.1	$57.9	48.0
1965	154.9	73.7	48.4
1966	167.3	80.5	47.0
1967	187.4	102.1	48.6
1968	207.5	114.5	48.2
1969	228.2	128.9	50.0
1970	243.1	124.2	50.4
1971	258.8	112.6	47.9
1972	269.3	112.0	46.9
1973 (estimate)	285.1	92.7	33.8

[1] Mobil's total cash dividends are published in the financial and operating statistics supplement.

[2] U.S. dividend allocation based on the assumption that dividends are payable out of U.S. earnings in the same ratio as U.S. earnings are to total earnings.

[3] The U.S. dividend earnings ratio is the same as the worldwide ratio published in the financial and operating statistics supplement.

Question No. 5. Fourth Quarter—1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increase in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin differentiate between company controlled retailers and independent retailers)?

Answer. Mobil does not have audited profit and loss statements that could be used to answer the question. We can, however, provide some general comments that are directed at the intent of your question.

A variety of indicators are prepared to provide management with an understanding of current operations. These indicators showed that our United States fourth quarter results were very poor in our refining and marketing operations.

Our fourth quarter results suffered significantly due to C.L.C. regulations concerning cost passthroughs. Under these regulations, increases in crude prices (and Mobil buys much of its crude oil from other companies) are debited against earnings immediately with no cost passthrough permitted until the subsequent month. Under these circumstances, for instance, the sharp increase in December crude costs could not be reflected in product prices until January. The loss we incurred in December is thus absorbed entirely by the Company with no hope for future recovery unless, at some future date, crude costs decline sharply while the same C.L.C rules continue to govern.

Question No. 6. Provide an estimate of your capital requirements in the United States for the period 1974–85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–73; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

Answer. It can be misleading to forecast year-by-year capital requirements based upon a particular set of financing assumptions. Expenditures are more likely to be determined by the opportunities available and the business climate then existing. Expenditure forecasts are particularly hazardous when limited to one oil company. Too much depends on such factors as the amount of acreage put up for sale by the Federal Government, the level of bidding at these sales, and eventual success in finding oil and gas reserves.

In response to your question, however, we can make a number of general comments.

First, the table provided for Question #3 shows historical Mobil United States capital expenditures and exploration expenses for 1964 through 1973. Over this decade, these expenditures more than tripled, rising from $229 million to $719 million. The 1973 expenditures, however, included significant offshore lease sale bonuses and it must be re-emphasized that future levels of expenditures will be affected, as stated above, by future opportunities made available and the future business climate pertaining.

Second, the Chase Manhattan Bank has, on at least two occasions, published analyses of the petroleum industry's long-term capital requirements and financing needs. We attach two of these studies dated 1971 and November 1973. These studies point out the need for increased internal cash generation as well as increased external borrowings. The warning is given that a lack of understanding in these areas will contribute to petroleum and energy shortages both in the United States and elsewhere. The November 1973 study concludes that earnings will have to grow 18% per year in order to generate the funds required from now through 1985.

Third, the level of expenditures Mobil (or any other energy company) can sustain will, in line with the Chase analyses, clearly depend on the business climate created by Congress. If this climate involves higher taxes, higher consumer prices will be needed to restore cash flow for investment unless there is to be a reduction in funds available for investment.

Legislation to limit profits will have the direct effect of reduced ability to sustain investments in energy.

Fourth, we recently provided verbal testimony before the Senate Permanent Subcommittee on Investigations in which we stated that in the U.S. we need a rate of return which is adequate to finance our business and attract the necessary capital. We further indicated that to be competitive in these areas it was necessary to have a rate of return approximating that which manufacturing has in the U.S., which, of course, varies from time to time. It was our judgment that that rate of return is upwards of 12% today, and would probably be in the range of 12 to 15%. It should be recognized that we have two types of business in the U.S., the marketing/refining business and the producing business. With respect to the latter, it is a higher risk business, and therefore would require a higher rate of return to attract the necessary risk capital. In addition, we would expect, and require, a higher rate of return on investments in foreign countries generally than we would require in the United States of America because of the higher risk involved in these foreign investments.

Attached is a chart comparing the rate of return for the petroleum industry with total manufacturing and with some other capital intensive industries. It can be observed from these tables that petroleum has had a rate of return approximately equal over the period with total manufacturing. Similar data presented for Mobil in answer to your Question #1 shows that for Mobil in the U.S. we are below the average, and that without the benefit of foreign earnings we would not have had a satisfactory rate of return.

Finally, a comparison of the rate of internal financing of the oil industry versus other industry is as follows:

	Percentages for full year		
	1970	1971	1972
All manufacturing corporations	72.7	76.1	78.9
Petroleum refining	76.5	77.8	91.4
Electrical machinery equipment and supplies	66.2	89.6	69.1
Primary iron and steel	69.0	69.4	81.2
Chemicals and allied products	78.7	77.7	66.1
Motor vehicles and equipment	82.7	80.3	90.1

The percentage of internal financing set forth above were calculated based upon data taken from the "Quarterly Financial Report for Manufacturing Corporations" for the fourth quarter of 1970, 1971 and 1972, Federal Trade Commission—Securities and Exchange Commission. These publications carry the Library of Congress Catalog Card Number 49-45545.

These calculations were made using as external financing the net of gross new borrowings and capital stock less the debt and capital stock retirement.

It is our understanding that the petroleum refining category in the FTC statistics includes integrated companies, such as Mobil, as well as those companies whose principal business is petroleum refining and marketing. We expect that the series does not include companies engaged exclusively in petroleum exploration and producing.

MOBIL OIL CORP.,
New York, N.Y., April 1, 1974.

MR. ROBERT M. WILLAN,
Tax Counsel Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. WILLAN: We have completed the forms for Questions #1 and 2 which you supplied by letter of March 19, 1974.

We have reviewed again the data submitted with respect to Question #6. In view of the many uncertainties surrounding our industry both here and abroad, we have no confidence in long-range capital spending projections. In view of this, we are extremely reluctant to expand upon information already furnished.

I have been advised that you are also interested in obtaining an estimate of 1974 First Quarter earnings and a comparison to Fourth Quarter 1973 earnings. As a matter of long standing policy, Mobil does not make public estimates of future earnings. I am advised that such public estimates would lead to complications with the Securities and Exchange Commission. When our First Quarter earnings have been published, we will be glad to discuss them with you.

Sincerely yours,

PAUL LITTLE,
General Tax Counsel.

QUESTION NO. 1

MOBIL OIL CORP.

[Dollars amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Net income	$849.3	$574.2	$540.8	$482.7	$456.5	$430.7	$385.4	$356.1	$320.1	$294.2
Net assets (shareholders' equity)	$5,714.8	$5,145.4	$4,831.9	$4,540.1	$4,309.1	$4,094.5	$3,848.9	$3,661.0	$3,483.5	$3,324.7
Rate of return net assets (percent)	15.6	11.5	11.5	10.9	10.9	10.8	10.3	10.0	9.4	9.0
United States:										
Net income	$275.0	$238.9	$235.3	$246.9	$257.8	$237.9	$210.1	$171.2	$152.5	$120.6
Net assets	$2,775.4	$2,666.4	$2,543.1	$2,513.0	$2,395.3	$2,366.6	$2,196.0	$2,071.5	$1,977.1	$1,788.3
Rate of return net assets (percent)	10.1	9.2	9.3	10.1	10.8	10.4	9.8	8.5	8.1	6.8
Foreign:										
Net income	$574.3	$335.3	$305.5	$235.9	$198.7	$192.8	$175.3	$184.9	$167.6	$173.6
Net assets	$2,939.4	$2,479.0	$2,288.8	$2,027.1	$1,913.8	$1,727.9	$1,652.9	$1,589.5	$1,506.4	$1,536.4
Rate of return net assets (percent)	21.2	14.1	14.2	12.0	10.9	11.4	10.8	11.9	11.0	11.7

Source. Financial Controls Department, Mar. 28, 1974.

42-561-74-5

QUESTION NO. 2

MOBIL OIL CORP.

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
United States	$275.0	$238.9	$235.3	$246.9	$257.8	$237.9	$210.1	$171.2	$152.5	$120.6
Foreign	574.3	335.3	305.5	235.8	198.7	192.8	175.3	184.9	167.6	173.6
Total	849.3	574.2	540.8	482.7	456.5	430.7	385.4	356.1	320.1	294.2
Sales:										
United States	$3,929.5	$3,439.1	$3,198.4	$3,074.1	$2,912.6	$2,758.4	$2,518.1	$2,292.0	$2,194.8	$2,047.8
Rate of profitably (percent)	7.0	6.9	7.4	8.2	8.9	8.6	8.3	7.5	6.9	5.9
Foreign	$7,596.1	$5,832.5	$5,141.7	$4,345.2	$3,805.0	$3,535.2	$3,381.0	$3,077.8	$2,818.3	$2,549.3
Rate of profitability (percent)	7.6	5.7	5.9	5.4	5.2	5.5	5.2	6.0	5.9	6.8
Total	$11,525.6	$9,271.6	$8,340.1	$7,369.3	$6,717.6	$6,293.6	$5,899.1	$5,369.8	$5,013.1	$4,597.1
Rate of profitability (percent)	7.4	6.2	6.5	6.6	6.8	6.8	6.5	6.6	6.4	6.4
Taxes (other than excise):										
United States	$191.8	$152.2	$199.8	$194.9	$163.9	$126.4	$138.2	$111.2	$113.8	$92.2
Rate of profitability (percent)	58.5	61.1	54.1	55.9	61.1	65.3	60.5	60.6	57.3	56.7
Foreign	$1,213.9	$835.0	$758.8	$443.6	$403.9	$381.6	$240.4	$223.[illegible]	$194.7	$176.7
Rate of profitability (percent)	32.1	28.7	28.7	34.5	33.0	33.6	42.2	45.3	46.3	49.6
Total	$1,408.7	$987.2	$958.6	$642.5	$567.8	$505.0	$378.6	$334.7	$308.5	$268.9
Rate of profitability (percent)	37.6	36.8	36.1	42.9	44.6	45.9	50.4	51.5	50.9	52.2
Employed capital (total assets):										
United States	$4,893.5	$4,415.6	$4,106.9	$4,104.7	$3,587.4	$3,520.6	$3,346.1	$3,016.7	$2,902.3	$2,641.1
Rate of profitability (percent)	5.9	5.6	5.7	6.4	7.3	6.9	6.6	5.8	5.5	4.5
Foreign	$5,796.9	$4,801.1	$4,445.4	$3,816.3	$3,575.6	$3,380.2	$2,877.8	$2,596.0	$2,392.6	$2,302.7
Rate of profitability (percent)	10.8	7.3	7.4	6.4	5.7	6.2	6.4	7.4	7.1	8.0
Total	$10,690.4	$9,216.7	$8,552.3	$7,921.0	$7,163.0	$6,900.8	$6,223.9	$5,612.7	$5,294.9	$4,943.8
Rate of profitability (percent)	8.5	6.5	6.6	6.4	6.5	6.6	6.5	6.5	6.3	6.1

Source Financial Controls Department, Mar. 28, 1974.

Note See corrected question 2 per letter June 12, 1974.

MOBIL OIL CORP.,
New York, N.Y., June 4, 1974.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: Enclosed is a further response to Question #6 of your questionnaire. The material submitted has been prepared in accordance with the form that you furnished.

We expect that our U.S. capital expenditures in 1974 will be in excess of those incurred in 1973 when the amount expended was $655 million. Funds available for U.S. capital expenditures, pursuant to the assumptions given, would not be adequate to cover what we now foresee for expenditures in 1974 even if Mobil's U.S. rate of return was 150% of the average 1964-1973 rate.

Furthermore, the funds available would not equal 87% of the now foreseen 1974 U.S. capital expenditures. The 1974 capital expenditures planned for the U.S. are predominantly for exploration and production, manufacturing and distribution investments. It has not been the practice of Mobil or the industry to finance such investments through the off-the-balance-sheet route. Therefore, we would not think it prudent or practical to assume that in the future the industry can or will rely greatly on off-the-balance-sheet financing for investments in these functions.

To generate from U.S. operations the U.S. capital expenditures being forecast for 1974, the U.S. rate of return would need to be greater than 14%, the dividend payout would need to be less than 50%; or the debt to net asset ratio would have to be greater than 26%.

Another source of funds that Mobil has used in the past to cover its U.S. capital expenditures has been cash flow generated from its non-U.S. operations. In view of recent events overseas and recent proposals regarding the taxation in the U.S. of foreign earnings, it is not possible to forecast at this time the extent to which that source of funds will be available to cover future U.S. capital expenditures.

PAUL LITTLE.

Question No. 6. Provide an estimate of your capital requirements in the United States for the period 1974-85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964-73; and (b) assuming your rate of return was one and one-half times your average rate of return 1964-73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company? (The form provided with this question indicated a 50% dividend rate and a 10% net annual capital recovery rate.)

Answer. We have prepared the attached estimate of funds available for capital expenditures in the United States for the period 1974-85, in the form requested, on the basis of the following assumptions:

1. That U.S. net income after taxes would be generated based on a rate of return on U.S. net assets that is (a) equal to our average rate of return for the period 1964-1973 (9.3%) and (b) one and one-half times our average rate of return for the period 1964-1973 (14.0%).

2. That funds would also be made available from the recovery of capital invested in previous years at an annual rate of 10% of net property, plant and equipment.

3. That 50% of our U.S. net income would be paid as dividends to our stockholders.

4. That external direct borrowings would be made at an annual rate which would maintain our U.S. debt at a level equal to the percentage relationship that debt had to U.S. net assets in 1973.

5. That there is no change in working capital. Given these assumptions the funds available for capital expenditures in 1974 would be:

(*a*) $465 million, assuming our return on net assets is equal to our average rate for the period 1964-1973.

(*b*) $530 million, assuming our return on net assets is one and one-half times our average rate for the period 1964-1973.

The capital expenditures shown on the form are not a Mobil forecast but are equal to the cash flow available for capital expenditures produced under the given assumptions. Actually, our capital expenditures in the United States totaled $655 million in 1973. We expect our U.S. capital expenditures to be higher in 1974.

Thus, given the stated assumptions, there is a significant shortfall in funds available during 1974 to meet our expected outlays. Given the added assumption that we are able to use off-the-balance-sheet financing for 13% of our needs, we would still face a significant shortfall of available funds.

QUESTION NO. 6.—BASED ON RATE OF RETURN CALCULATED AT AVERAGE 1964/1973 RATE

MOBIL OIL CORP.

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Net assets Jan. 1		2,775	2,904	3,039	3,181	3,329	3,484	3,646	3,816	3,994	4,180	4,375	4,579
Rate of return, percent		9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Net income		258	270	283	296	310	324	339	355	371	389	407	426
Capital recovery, 10 percent net		327	341	358	375	394	413	433	454	477	500	524	549
(Dividends 50 percent)		(129)	(135)	(142)	(148)	(155)	(162)	(170)	(178)	(186)	(195)	(204)	(213)
Funds available		456	476	499	523	549	575	602	631	662	694	727	762
Capital expenditures	$7,635	465	510	534	560	588	615	644	675	708	743	778	815
Borrowings		9	34	35	37	39	40	42	44	46	49	51	53
Repayment at 10 percent per year in 5th year:													
1974						1	1	1	1	1	1	1	1
1975							3	3	3	3	3	3	3
1976								4	4	4	4	4	4
1977									4	4	4	4	4
1978										4	4	4	4
1979											4	4	4
1980												4	4
1981													4
Total repayments						1	4	8	12	16	20	24	28
Debt		721	755	790	827	866	906	948	992	1,038	1,087	1,138	1,191
Debt/net asset, percent		26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0

QUESTION NO. 6.—BASED ON RATE OF RETURN CALCULATED AT 1½ TIMES AVERAGE 1964-1973 RATE

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Net assets Jan. 1		2,775	2,969	3,177	3,399	3,637	3,891	4,163	4,455	4,767	5,101	5,458	5,340
Rate of return, percent		14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Net income		388	416	445	503	509	545	583	624	667	714	764	817
Capital recovery, 10 percent net		327	347	373	401	430	462	496	532	571	612	657	704
(Dividends 50 percent)		(194)	(208)	(222)	(238)	(254)	(272)	(297)	(312)	(334)	(357)	(382)	(408)
Funds available		521	555	596	639	685	735	787	844	904	969	1,039	1,113
Capital expenditures	10,193	530	606	650	697	747	801	857	920	985	1,056	1,132	1,212
Borrowings		9	51	54	58	62	66	70	76	81	87	93	99
Repayment at 10 percent per year in 5th year:													
1974						1	1	1	1	1	1	1	1
1975							5	5	5	5	5	5	5
1976								5	5	5	5	5	5
1977									6	6	6	6	6
1978										6	6	6	6
1979											7	7	7
1980												7	7
1981													8
Total repayments						1	6	11	17	23	30	37	45
Debt		721	772	826	884	946	1,012	1,082	1,158	1,239	1,326	1,419	1,518
Debt/net asset, percent		26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0

MOBIL OIL CORP.,
New York, N.Y., June 14, 1974.

HON. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LONG: In reference to your oral request, we have calculated Mobil's return on average invested capital for the years 1964–1973—split between foreign and U.S.

The income number used in this calculation is the sum of Mobil's net income as reported each year, plus estimated after-tax interest expense on long-term debt. Invested capital is defined as shareholder's equity plus long-term debt.

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
United States	6.0	7.2	7.6	8.8	9.2	9.7	9.0	8.1	8.0	8.8
Foreign	11.5	10.6	11.4	10.4	10.7	9.9	10.8	12.6	12.5	[1] 19.3
Worldwide	8.3	8.7	9.2	9.4	9.8	9.8	9.8	10.1	10.1	[1] 13.9

[1] Without the $150,000,000 foreign currency translation factor in 1973, the foreign return would have been 1[illegible] 8 percent and worldwide 11 6 percent.

Sincerely yours,

PAUL LITTLE.

QUESTION NO. 2

MOBIL OIL CORP.

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
United States	$275.0	$238.9	$235.3	$246.9	$257.8	$237.9	$210.1	$171.2	$152.5	$120.6
Foreign	574.3	335.3	305.5	235.8	198.7	192.8	175.3	184.9	167.6	173.6
Total	849.3	574.2	540.8	482.7	456.5	430.7	385.4	356.1	320.1	294.2
Sales:										
United States	$3,929.5	$3,439.1	$3,198.4	$3,021.4	$2,912.6	$2,758.4	$2,518.1	$2,292.0	$2,194.8	$2,047.8
Rate of profitability (percent)	7.0	6.9	7.4	8.2	8.9	8.6	8.3	7.5	6.9	5.9
Foreign	$7,596.1	$5,[illegible]2.5	$5,141.7	$4,345.2	$3,805.0	$3,535.2	$3,181.0	$3,077.8	$2,818.3	$2,549.3
Rate of profitability (percent)	7.6	5.7	5.9	5.4	5.2	5.5	5.2	6.0	5.9	6.8
Total	$11,525.6	$9,271.6	$8,340.1	$7,369.3	$6,717.6	$6,293.6	$5,899.1	$5,369.8	$5,013.1	$4,597.1
Rate of profitability (percent)	7.4	6.2	6.5	6.6	6.8	6.8	6.5	6.6	6.4	6.4
Taxes (other than excise):										
United States	$194.8	$152.2	$199.8	$194.9	$163.9	$126.4	$138.2	$111.2	$113.8	$92.2
Rate of profitability (percent)	58.5	61.1	54.1	55.9	61.1	65.3	60.3	60.6	57.3	56.7
Foreign	$1,213.9	$835.0	$758.8	$443.6	$403.9	$381.6	$240.4	$223.5	$194.7	$176.7
Rate of profitability (percent)	32.1	28.7	28.7	34.5	33.0	33.6	42.2	45.3	46.3	49.6
Total	$1,408.7	$987.2	$958.6	$642.5	$567.8	$508.0	$378.6	$334.7	$308.5	$268.9
Rate of profitability (percent)	37.6	36.8	36.1	42.9	44.6	45.9	50.4	51.5	50.9	52.2
Employed capital (total assets): [1]										
United States	$4,893.5	$4,415.6	$4,106.9	$4,104.7	$3,587.4	$3,520.6	$3,346.1	$3,016.7	$2,092.3	$2,641.1
Rate of profitability (percent)	8.8	8.0	8.1	9.0	9.7	9.2	8.8	7.6	7.2	6.0
Foreign	$5,796.9	$4,801.1	$4,445.4	$3,816.3	$3,575.6	$3,380.2	$2,877.8	$2,596.0	$2,392.6	$2,302.7
Rate of profitability (percent)	19.3	12.5	1.26	10.8	9.9	10.7	10.4	11.4	10.6	11.5
Total	$10,690.4	$9,216.7	$8,552.3	$7,921.0	$7,163.0	$6,900.8	$6,223.9	$5,612.7	$5,294.9	$4,943.8
Rate of profitability (percent)	13.8	10.1	10.1	9.8	9.8	9.8	9.4	9.2	8.7	8.3

[1] Corrected June 12, 1974. Adjusted net income includes net income plus interest on long-term debt adjusted for taxes. Employed capital is shareholder's equity plus long-term debt. Without the $150,000,000 foreign currency translation factor in 1973, the foreign return would have been 14.8 percent and worldwide 11.6 percent.

Source: Financial Controls Department, Mar. 28, 1974.

GULF OIL CORP.

GULF OIL CORP.,
Washington, D.C., February 15, 1974.

Mr. MICHAEL STERN,
Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. STERN: The attached schedules and information are submitted by Gulf in answer to your questionnaire to witnesses testifying before the Senate Finance Committee on February 13 and 14, 1974. The following paragraphs are explanatory notes to each question and provide additional information comparing Gulf's 1973 rate of return on domestic operations to other U.S. companies (see para. 10).

1. Information regarding rates of return on *stockholders' investment (net assets) refers to all investments, not just those relating to petroleum products,* since the information is not available for earlier years on the basis you requested. However, all but a small portion of Gulf's total investment is in petroleum and related energy fields, e.g., coal, nuclear and petrochemicals. As the data supplied in answer to Question 1 show, Gulf's return on net assets in the U.S. has been *declining* steadily since 1968, and actually reached its *lowest point* in the last five years in 1973, or 7.1%. This low rate of return reflects the substantial reinvestment of funds in exploration for new sources of petroleum and development of nuclear power. Gulf's rate of return on its non-energy related investments (e.g., real estate) is currently higher than its rate of return on energy-related investments.

2. The rate of profitability for taxes shown is the ratio of profit after taxes to profit before tax. For example, in 1973, U.S. profit before taxes (other than excise taxes) was $383 million (226+157); profit after tax was $226 million; and the rate of profitability was 59% (226 divided by 383). Thus, the effective rate of taxes other than excise taxes as a percentage of net income before tax was 41%. The information requested concerning the ratio of domestic net income to domestic labor costs is not available. It should be noted that the rate of return on capital employed in the U.S. has also declined steadily since 1968, to a low of 6.3% in 1973.

3. This schedule shows net income after taxes but *before* dividends and the resulting percentage (e.g., 66% for 1973) is before dividends. Schedule 3a shows dividends for the applicable years; hence the percentage can easily be calculated after taking dividends into account if that is desired.

4. The data requested in Question 4 are available only for the years shown. A separate calculation of U.S. petroleum earnings is not available for years prior to 1972.

5. This information is not available at this time in the form requested. However, a copy of the press release explaining Gulf's 1973 financial results is attached.

6. This information will be available early next week and will be submitted then.

7. The attached schedule containing the information requested in Question 7 is self-explanatory.

8. The attached answer to Question 8 is self-explanatory.

9. The attached schedule in answer to Question 9 is self-explanatory.

10. We are also attaching a copy of the article from the January 1, 1974, issue of Forbes Magazine referred to by Mr. Henry in his testimony. As shown on page 65, based on earnings for the last quarter of 1972 and the first three quarters of 1973, Gulf's 1973 return on equity (net assets) was estimated at 12.8% and its return on employed capital at 9.6%. In fact, as the attached data show (see answers to Questions 1 and 2), the actual 1973 figures for Gulf's U.S. operations were 7.1% and 6.3%. These rates of return rank Gulf below 500th in the list of 851 companies surveyed.

Please let me know if we can be of any further assistance to you or the Committee.

Very truly yours,

J. M. REESE.

GULF OIL CORP.,
Washington, D.C., February 21, 1974.

Mr. MICHAEL STERN,
Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. STERN: Following my letter of February 15, 1974 I now enclose the answer to Question No. 6.

I would also like to call your attention to a change in the answer to Question No. 1. For the year 1972, the U.S. net assets should be shown as 3238 instead of 3303. This changes the rate of return from 10.2% to 10.3%. The foreign net assets should be shown as 2171 rather than 2106, but this change has no effect on the rate of return.

Very truly yours,

J. M. REESE.

QUESTION NO. 1

GULF OIL CORP.

[Dollar amounts in millions]

	1973	1972 [1]	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Net income	$800	$447	$561	$550	$611	$626	$568	$505	$427	$395
Net assets	5,569	5,409	5,521	5,279	5,040	4,751	4,412	4,089	3,819	3,591
Rate of return net assets (percent)	14.6	8.2	10.4	10.7	12.5	13.7	13.4	12.8	11.5	11.3
United States:										
Net income	$226	$327	$341	$359	$407	$420	$391	$358	$304	$267
Net assets	3,029	[2] 3,238	3,123	3,270	3,222	2,999	2,753	2,641	2,550	2,420
Rate of return net assets (percent)	7.1	[2] 10.3	10.7	11.0	13.1	14.6	14.5	13.8	12.2	[3] 11.0
Foreign:										
Net income	$574	$120	$220	$191	$204	$206	$177	$147	$123	$128
Net assets	2,540	[2] 2,171	2,398	2,009	1,818	1,752	1,659	1,448	1,269	1,171
Rate of return net assets	24.7	5.3	10.0	10.0	11.4	12.1	11.4	10.8	10.1	[3] 10.9

[1] Before extraordinary writeoff.
[2] Corrected per letter of Feb. 21, 1974.
[3] Calculated on average net assets except for 1964 which is calculated on actual.

QUESTION NO 2

GULF OIL CORP.

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
United States	$226	$321	$341	$359	$407	$420	$412	$358	$304	$267
Foreign	574	126	220	191	204	206	166	147	123	128
Total	800	447	561	550	611	626	578	505	427	395
Sales:										
United States	$4,619	$3,949	$3,841	$3,881	$3,073	$3,834				
Rate of profitability (percent)	4.9	8.1	8.9	9.3	11.0	11.0				
Foreign	$5,217	$3,675	$3,364	$2,716	$2,407	$1,762				
Rate of profitability (percent)	11.0	3.4	6.5	7.0	8.5	11.7				
Total	$9,836	$7,624	$7,205	$6,597	$6,110	$5,596	$5,110	$4,656	$4,185	$3,804
Rate of profitability (percent)	8.1	5.9	7.8	8.3	10.0	11.2	11.3	10.8	10.2	10.4
Taxes (other than excise):										
United States	$157	$128	$151	$166	$150	$101	$173	$179	$136	$132
Rate of profitability (percent)	59.0	71.5	69.3	68.4	73.1	80.6	70.4	66.7	69.1	66.9
Foreign	$1,484	$923	$832	$521	$467	$418	$351	$259	$213	$168
Rate of profitability (percent)	27.9	12.0	20.9	26.8	30.4	33.0	32.1	36.2	36.6	43.2
Total	$1,641	$1,051	$983	$687	$617	$519	$524	$438	$349	$300
Rate of profitability (percent)	32.8	29.8	36.3	44.5	49.8	54.7	52.5	53.6	55.0	56.8
Employed capital:										
United States	$3,885	$4,123	$3,998	$3,991	$3,821	$3,730	$3,306	$3,172	$2,811	
Rate of profitability (percent)	6.3	8.7	9.2	9.8	11.3	12.2				
Foreign	$3,785	$3,709	$4,084	$3,406	$3,047	$2,672	$2,146	$1,860	$1,632	
Rate of profitability (percent)	17.5	4.8	7.5	7.4	8.6	9.3				
Total	$7,670	$7,832	$8,082	$7,397	$6,868	$6,402	$5,452	$5,032	$4,443	$4,075
Rate of profitability (percent)	11.7	6.8	8.4	8.7	10.1	11.0	11.4	11.2	10.5	10.4

Note.--Employed capital percent is based on "adjusted" net income.

QUESTION NO. 3

GULF OIL CORP.

[Dollar amounts in millions]

	1973	1972 [1]	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Exploration expense	$156	$141	$113	$109	$123	$110	$106	$101	$91	$70
Capital investment (all operations)	479	357	253	239	388	444	294	260	272	245
Total	635	493	366	348	511	554	400	361	363	315
Earnings (after taxes)	800	447	561	550	611	626	568	505	427	395
Exploration expense	156	141	113	109	123	110	106	101	91	70
Total	956	588	674	659	734	736	674	606	518	465
Total investment and expense as percent of inc. and expense	66	85	54	53	70	75	59	60	70	68
Total United States:										
Exploration expense	$57	$53	$39	$46	$52	$46	$59	$51	$58	$53
Capital investment (all operations)	375	277	113	130	251	254	177	180	180	170
Total [2]	432	330	152	176	303	300	236	231	238	223
Earnings (after taxes)	226	321	341	359	407	420	391	358	304	267
Exploration expense	57	53	39	46	52	46	59	51	58	53
Total	283	374	380	405	459	466	450	409	362	320
Total investment and expense as percent of inc. and expense	153	88	40	43	66	64	52	56	66	70
Total foreign:										
Exploration expense	$99	$88	$74	$63	$71	$64	$47	$50	$33	$17
Capital investment (all operations)	104	80	140	109	137	190	117	80	92	75
Total [2]	203	168	214	172	208	254	164	130	125	92
Earnings (after taxes)	574	126	220	191	204	206	177	147	123	128
Exploration expense	99	88	74	63	71	64	47	50	33	17
Total	673	214	294	254	275	270	224	197	156	145
Total investment and expense as percent of inc. and expense	30	79	73	68	76	94	73	66	80	63

[1] 1972 capital investment as reported in the 1972 Annual Report was $349. It has been restated in 1973's Annual Report for comparative purposes.

[2] Above data are before dividend payment to shareholders. Total expenditures for period were $2.62 billion United States and $1.73 billion foreign; ratio is 1.5 United States to 1.0 foreign.

QUESTION NO. 3A

	Dividends	
	Millions of dollars	Dollars per share
1973	$297	$1.50
1972	311	1.50
1971	312	1.50
1970	312	1.50
1969	312	1.50
1968	291	1.40
1967	259	1.25
1966	218	[1] 2.10
1965	192	[1] 1.85
1964	177	[1] 1.70

[1] Before 2-for-1 stock split.

QUESTION NO. 4

	Millions of dollars									
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporation:										
Petroleum earnings [1]	$1,142	$658								
Total earnings	800	447	$561	$550	$611	$626	$578	[illegible]	$427	$395
Dividends	296	311	312	312	312	291	259	218	192	177
United States:										
Petroleum earnings [1]	480	420								
Dividends [2]	124	199								
Dividends as a percent of petroleum earnings	26	47								
Foreign										
Petroleum earnings [1]	662	238								
Dividends [2]	172	112								
Dividends as a percent of petroleum earnings	26	47								

[1] Petroleum earnings are before amortization of nonproducing leases and exploration and dry hole expense.

[2] Basis—Petroleum earnings were in excess of total earnings, accordingly all dividends are paid out of petroleum earnings. Dividends paid were split United States, Foreign in the same ratio as United States and foreign petroleum earnings were to total petroleum earnings.

QUESTION NO. 6

GULF OIL CORP.—U.S. OPERATIONS CAPITAL REQUIREMENTS WITH RETURN ON INVESTMENT AT 1964-73 AVERAGE

[Dollar amounts in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Investment—Jan. 1	$67,776	$3,029	$3,366	$3,741	$4,158	$4,621	$5,135	$5,685	$6,273	$6,899	$7,566	$8,275	$9,028
Rate of return (percent)	11.7												
Net income	$7,928	$354	$394	$438	$486	$541	$600	$665	$734	$807	$885	$968	$1,056
Plant exhaustion 10 percent net investment	6,775	303	337	374	416	462	514	568	627	689	756	827	902
Less 50 percent in dividends	3,962	177	197	219	243	270	300	332	367	403	442	484	528
Funds generated	10,179	480	534	593	659	732	798	867	940	1,017	1,099	1,185	1,275
Capital requirements	13,572	640	712	791	879	976	1,064	1,156	1,253	1,356	1,465	1,580	1,700
Borrowings	3,393	160	178	198	220	244	266	289	313	339	366	395	425
Repayment—10 percent per year:													
1974 borrowing							16	16	16	16	16	16	16
1975 borrowing								18	18	18	18	18	18
1976 borrowing									20	20	20	20	20
1977 borrowing										22	22	22	22
1978 borrowing											24	24	24
1979 borrowing												26	26
1980 borrowing													29
Total repayments	561						16	34	54	76	100	126	155
Total debt Dec. 31		960	1,138	1,336	1,556	1,800	2,050	2,305	2,564	2,827	3,093	3,362	3,632
Debt/investment ratio Dec. 31 (percent)		28.5	30.4	32.1	33.7	35.0	36.0	36.7	37.2	37.4	37.4	37.2	37.0

1 Beginning in 5th year from date of borrowing.

QUESTION NO. 6.—Continued

GULF OIL CORP.—U.S. OPERATIONS CAPITAL REQUIREMENTS WITH RETURN ON INVESTMENT AT 1½ TIMES 1964 73 AVERAGE

[Dollar amounts in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Investment—Jan. 1	$86,121	$3,029	$3,485	$4,010	$4,614	$5,309	$6,108	$7,003	$8,003	$9,120	$10,368	$11,760	$13,312
Rate of return (percent)	17.6												
Net income	$15,153	$533	$613	$705	$852	$934	$1,075	$1,232	$1,408	$1,605	$1,825	$2,069	$2,342
Plant exhaustion 10 percent net	8,607	302	348	401	461	530	610	700	800	912	1,036	1,176	1,331
50 percent dividends	7,573	266	306	352	406	467	537	616	704	802	912	1,034	1,171
Funds generated	15,466	569	655	754	867	997	1,129	1,275	1,438	1,620	1,821	2,046	2,295
Capital expenditure	20,619	758	873	1,005	1,156	1,329	1,505	1,700	1,917	2,160	2,428	2,728	3,060
Borrowings	5,153	189	218	251	289	332	376	425	479	540	607	682	765
Repayment—10 percent per year beginning in 5th year from date of borrowing:													
1974 borrowing							19	19	19	19	19	19	19
1975 borrowing								22	22	22	22	22	22
1976 borrowing									25	25	25	25	25
1977 borrowing										29	29	29	29
1978 borrowing											33	33	33
1978 borrowing												37	37
1980 borrowing													42
Total repayments	721						19	41	66	95	128	165	207
Total debt		989	1,207	1,458	1,747	2,079	2,436	2,820	3,233	3,678	4,157	4,674	5,232
Debt investment ratio Dec. 31 (percent)		28.4	30.1	31.6	32.9	34.0	34.8	35.2	35.4	35.5	35.3	35.1	34.8

SHARE OF REFINED PRODUCTS SOLD OF FOREIGN ORIGIN—1964-73

Year	Refined products sold U.S. barrels per day	Total foreign origin products: Barrels per day	Total foreign origin products: Percent
1964	620,500	96,200	15.5
1965	658,300	97,900	14.9
1966	707,400	95,300	13.5
1967	740,100	102,600	13.9
1968	786,600	106,600	13.6
1969	796,200	105,800	13.3
1970	799,600	103,100	12.9
1971	774,900	108,100	14.0
1972	803,200	136,800	17.0
1973	902,100	226,900	25.2

Note.—The above figures were derived by assuming that, for both products made in Gulf refineries and those purchased from other refiners, the foreign derived proportion is the same as the ratio of Gulf's runs of foreign crude oil to Gulf's total runs.

Question No. 8. Describe the typical situations in which you have contractual relationships with a foreign subsidiary involving a pricing problem. To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary? Do you recommend any alternative approach for regulation of such transactions to prevent the shifting of United States profits to foreign subsidiaries?

Answer. Under U.S. tax law the sales price in the producing country is used to determine U.S. taxable income in accordance with Section 482 of the Internal Revenue Code.

If a sale is not made to an unrelated party then the tax calculation for sales to related parties must be priced on an "arm's length" basis. The U.S. Internal Revenue Service has taken the position that the "arm's-length" price is generally the Persian Gulf market price, adjusted for quality differentials and freight parity to the consuming market. AFRA freight charges have been accepted as an "arm's-length" standard to determine parity in each producing country.

No precise guidelines have been written and tax settlements have been based upon discussions with each individual company taking into account its particular facts. To the extent possible, we understand that company settlements have been made on a consistent basis. Agreements on pricing have been reached with most companies through 1971. This pricing basis is used for determination of tax liabilities, for Cost of Living Council reporting and for Customs reporting.

We do not believe there is any ability to "shift" profits from the U.S. to a foreign subsidiary. We believe the current system is working well. Any attempt to establish precise pricing guidelines would be impossible because of the many complexities of the business. We would, therefore, recommend that the current system be maintained.

QUESTION NO. 9

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Foreign expenditures	$203	$168	$214	$172	$208	$254	$164	$130	$125	$92
Foreign earnings	574	126	220	191	204	206	177	147	123	128
Foreign debt[1] at year end	454	700	755	615	517	405	148	145	142	63
Total earnings and debt	1,028	826	975	806	721	611	325	292	265	191
Expenditures to earnings and debt (percent)	19.8	20.3	22.0	21.3	28.9	41.6	50.5	44.5	41.2	48.2

[1] Includes current portion.

GULF OIL CORP.,
Washington, D.C., April 30, 1974.

Mr. ROBERT M. WILLAN,
Tax Counsel, Senate Committee on Finance,
Washington, D.C.

DEAR MR. WILLAN: I am enclosing a schedule containing the answers to Questions 3 and 9 in the form you requested.

You will note that the total of capital expenditures and exploration expense as shown in Column 1 includes higher figures than we originally transmitted to you in reply to question 3 of your questionnaire. The difference is that the original data pertained to the capital investment in petroleum assets only, and the data attached pertains to total corporate capital expenditures, excluding business investments. These capital expenditures correlate, of course, with the total corporate net income figures and capital recovery figures shown.

After you have had a chance to review this and the answers to the other questions, it might be useful to get together to clarify any questions you have. Please let me know if you think this would be useful or if we can be of any further assistance.

Sincerely yours,

J. M. REESE.

QUESTIONS NOS. 3 AND 9

GULF OIL CORP.

[Dollar amounts in millions]

	Capital expenditure and exploration expense	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery	Adjusted earnings plus capital recovery (4+5)	Ratios—capital expenditures and exploration expense as a percent of— Net income (1+2)	Adjusted earnings (1+4)	Adjusted earnings plus capital recovery (1+6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic:									
1964	$416	$267	$53	$320	$189	$509	155.8	130.0	81.7
1965	433	304	58	362	202	564	142.4	119.6	76.8
1966	479	358	51	409	217	626	133.8	117.1	76.5
1967	543	391	59	450	254	704	138.9	120.7	77.1
1968	403	420	46	466	286	752	95.9	86.5	53.6
1969	567	407	52	459	292	751	139.3	123.5	75.5
1970	444	359	46	405	335	740	123.7	109.6	60.0
1971	495	341	39	380	298	678	145.2	130.3	73.0
1972	461	321	53	374	331	705	143.6	123.3	65.4
1973	562	226	57	283	372	655	248.7	198.6	85.8
Total 10 yr	4,803	3,394	514	3,908	2,776	6,684	141.5	122.9	71.9
Foreign:									
1964	143	128	17	145	77	222	111.7	98.6	64.4
1965	221	123	33	156	104	260	179.7	141.7	85.0
1966	257	147	50	197	111	308	174.8	130.5	83.4
1967	335	177	47	224	114	338	189.3	149.5	99.1
1968	619	206	64	270	134	404	300.5	229.3	153.2
1969	501	204	71	275	159	434	245.6	182.2	115.4
1970	530	191	63	254	187	441	277.5	208.7	120.2
1971	526	220	74	294	212	506	239.1	178.9	103.9
1972	358	126	88	214	245	459	284.1	167.3	78.0
1973	378	574	99	673	238	911	65.9	56.2	41.5
Total 10 yr	3,868	2,096	606	2,702	1,581	4,283	184.5	143.2	90.3

Note.—Cash flow has to cover not only capital expenditures but changes in working capital requirements and dividends to shareholders. Over the 10-yr period 1964-73 in order to cover cash requirements Gulf increased long-term borrowings about $1⅓ billion ($1,332,000,000); approximately 60 percent was foreign.

STANDARD OIL COMPANY OF CALIFORNIA,
April 8, 1974.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: In response to your letters of March 13 and 19, 1974, addressed to Mr. L. T. Vice, we enclose our response to your questionnaire on U.S. operations of oil companies.

We have responded to all of the questions in exactly the form that you provided us. We hope that the information will be useful to the Committee in consideration of pending legislation.

Very truly yours,

H. L. SEVERANCE, *Secretary.*

STANDARD OIL CO. OF CALIFORNIA

QUESTION NO. 1

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total company:										
Net income	$844	$547	$511	$455	$454	$452	$409	$386	$352	$308
Net assets—end of year	$5,806	$5,221	$4,919	$4,646	$4,428	$4,209	$3,975	$3,768	$3,575	$3,398
Return on average net assets (percent)	15.3	10.8	10.7	10.0	10.5	11.0	10.6	10.5	10.1	9.3
United States:										
Net income	$184	$200	$185	$194	$220	$211	$191	$200	$189	$165
Net assets—end of year	$3,468	$3,212	$3,035	$3,098	$3,045	$2,917	$2,779	$2,667	$2,526	$2,402
Return on average net assets (percent)	5.5	6.4	6.0	6.3	7.4	7.4	7.0	7.7	7.7	6.9
Foreign:										
Net income	$660	$347	$326	$261	$234	$241	$218	$186	$163	$143
Net assets—end of year	$2,338	$2,009	$1,884	$1,548	$1,383	$1,292	$1,196	$1,101	$1,049	$996
Return on average net assets (percent)	30.4	17.8	19.0	17.8	17.5	19.4	19.0	17.3	15.9	15.3

Note.—These amounts differ from those reported to the Federal Trade Commission in that until the 4th quarter 1973, the data reported to the FTC was "total company"; commencing with the 4th quarter 1973 report, the profits reported to the FTC are comparable to the U.S. data above, but the shareholders' investment is comparable to "total company" above.

Source: Annual report and Form 10-K filed with SEC

QUESTION NO. 2

STANDARD OIL CO. OF CALIFORNIA

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966 [1]	1965 [1]	1964 [1]
Net income:										
United States	$184	$200	$185	$194	$220	$211	$191	$200	$189	$165
Foreign	660	347	326	261	234	241	218	186	163	143
Total	844	547	511	455	454	452	409	386	352	308
Sales: [2]										
United States	$3,538	$3,059	$2,860	$2,679	$2,589	$2,488	$2,391	$2,265	$2,138	$2,020
Percent of profitability	5.2	6.5	6.5	7.2	8.5	8.5	8.0	8.8	8.8	8.2
Foreign	$4,224	$2,771	$2,283	$1,707	$1,406	$1,315	$1,076	$671	$530	$474
Percent of profitability	15.6	12.5	14.3	15.3	16.6	18.3	20.3	27.7	30.8	30.2
Total amount	$7,762	$5,830	$5,143	$4,386	$3,995	$3,803	$3,467	$2,936	$2,668	$2,494
Percent of profitability	10.9	9.4	9.9	10.4	11.4	11.9	11.8	13.2	13.2	12.4
Taxes (other than excise): [2]										
United States	$178	$162	$155	$156	$118	$120	$110	$120	$100	$96
Percent of profitability [3]	50.8	55.2	54.4	55.4	65.1	63.7	63.5	62.5	65.4	63.2
Foreign	$1,048	$859	$737	$540	$455	$388	$273	$66	$55	$44
Percent of profitability [3]	38.6	28.8	30.7	32.6	34.0	38.3	44.4	73.8	74.8	76.5
Total amount	$1,226	$1,021	$892	$696	$573	$508	$383	$186	$155	$140
Percent of profitability [3]	40.8	34.9	36.[illegible]	39.5	44.2	47.1	51.6	67.5	69.4	68.8
Labor costs: [2]										
United States	$517	$504	$485	$458	$458	$438	$416	$401	$375	$356
Percent of profitability	35.6	39.7	38.1	42.4	48.0	48.2	45.9	49.9	50.4	46.3
Foreign	$127	$97	$80	$65	$58	$50	$41	$21	$20	$21
Percent of profitability	519.7	357.7	407.5	401.5	403.4	482.0	531.7	885.7	815.0	681.0
Total amount	$644	$601	$565	$523	$516	$488	$457	$422	$395	$377
Percent of profitability	131.1	91.0	90.4	87.0	88.0	92.6	89.5	91.5	89.1	81.7
Total investment (including long-term debt): [2]										
United States	$4,220	$3,936	$3,768	$3,570	$3,523	$3,400	$3,267	$2,926	$2,717	$2,594
Percent of profitability	5.1	5.8	5.6	5.8	6.7	6.7	6.5	7.4	7.3	6.6
Foreign	$2,650	$2,317	$2,205	$1,822	$1,541	$1,413	$1,263	$1,132	$1,074	$1,020
Percent of profitability	27.2	16.0	16.8	16.2	16.5	18.5	18.5	17.0	15.8	15.2
Total amount	$6,870	$6,253	$5,973	$5,392	$5,064	$4,813	$4,530	$4,058	$3,791	$3,614
Percent of profitability	13.5	9.5	9.6	9.2	9.6	10.1	9.9	10.1	9.7	8.9

[1] Ratios for years prior to 1967 not comparable to later years due to consolidation of certain European affiliates in 1967.

[2] Company and majority-owned subsidiaries, only.

[3] Profits after tax divided by profits before all taxes (except excise taxes).

QUESTION NO. 3

STANDARD OIL CO. OF CALIFORNIA

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Domestic:										
Capital expenditures and exploration expense	$562	$533	$481	$528	$554	$486	$503	$451	$527	$446
Net income	184	200	185	194	220	211	191	200	189	165
Exploration expense	84	76	61	74	84	93	88	85	82	72
Adjusted earnings	268	276	246	268	304	304	279	285	271	237
Capital recovery	315	293	286	271	254	258	235	215	192	181
Adjusted earnings plus capital recovery	583	569	532	539	558	562	514	500	463	418
Capital expenditures and exploration expense as a percent of:										
Net income	305	266	260	272	252	230	263	226	279	270
Adjusted earnings	210	193	196	197	182	160	180	158	194	188
Adjusted earnings plus capital recovery	96	94	90	98	99	86	98	90	114	107
Memo: adjusted earnings plus capital recovery less dividends	107	111	108	121	125	106	120	113	143	133
Foreign:										
Capital expenditures and exploration expense	$333	$256	$376	$260	$221	$165	$140	$104	$127	$124
Net income	660	347	326	261	234	241	218	186	163	143
Exploration expense	74	59	62	40	33	29	29	29	25	25
Adjusted earnings	734	406	388	301	267	270	247	215	188	168
Capital recovery	91	84	58	54	59	56	48	38	31	27
Adjusted earnings plus capital recovery	825	490	446	355	326	326	295	253	219	195
Capital expenditures and exploration expense as a percent of:										
Net income	50	74	115	100	94	68	64	56	78	87
Adjusted earnings	45	63	97	86	83	61	57	48	68	74
Adjusted earnings plus capital recovery	40	52	84	73	68	51	47	41	58	64
Memo: Adjusted earnings plus capital recovery less dividends	54	77	127	119	108	79	75	64	88	94

Note.—Data other than net income is for company and majority-owned subsidiaries only.

QUESTION NOS. 3 AND 9

STANDARD OIL CO. OF CALIFORNIA

[Dollar amounts in millions]

Year	Capital expenditures and exploration expense	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery	Adjusted earnings plus capital recovery (4+5)	Ratios: Capital expenditures and exploration expenses as a percent of— Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings plus capital recovery (1÷6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic petroleum operations:									
1964	$446	$165	$72	$237	$181	$418	270	188	107
1965	527	189	82	271	192	463	279	194	114
1966	451	200	85	285	215	500	226	158	90
1967	503	191	88	279	235	514	263	180	98
1968	486	211	93	304	258	562	230	160	86
1969	554	220	84	304	254	558	252	182	99
1970	528	194	74	268	271	539	272	197	98
1971	481	185	61	246	286	532	260	196	90
1972	533	200	76	276	293	569	266	193	94
1973	562	184	84	268	315	583	305	210	96
Total 10 yrs	5,071	1,939	799	2,738	2,500	5,238	261	185	97
Foreign petroleum operations:									
1964	124	143	25	168	27	195	87	74	64
1965	127	163	25	188	31	219	78	68	58
1966	104	186	29	215	38	253	56	48	41
1967	140	218	29	247	48	295	64	57	47
1968	165	241	29	270	56	326	68	61	51
1969	221	234	33	267	59	326	94	83	68
1970	260	261	40	301	54	355	100	86	73
1971	376	326	62	388	58	446	155	97	84
1972	256	347	59	405	84	490	74	63	52
1973	333	660	74	734	91	825	50	45	40
Total 10 yrs	2,106	2,779	405	3,184	546	3,730	76	66	56

Note.—Cash flow has to cover not only capital expenditures, but also changes in working capital requirements and dividends to shareholders. Data other than net income is for company and majority-owned subsidiaries only.

QUESTION NO. 4

STANDARD OIL CO. OF CALIFORNIA

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporation:										
Net income	$844	$547	$511	$455	$454	$452	$409	$386	$352	$308
Dividends	$263	$246	$237	$237	$235	$218	$202	$190	$168	$146
Dividends as percent of net income	31	45	46	52	52	48	49	50	49	49
Domestic operations:										
Net income	$184	$200	$185	$194	$220	$211	$191	$201	$189	$165
Dividends	$57	$90	$86	$101	$114	$102	$94	$100	$94	$83
Dividends as percent of net income	31	45	46	52	52	48	49	50	49	49

Note.—The payout ratios for "total corporation" and "domestic" are identical due to the company's practice of reporting to the shareholders and the SEC as a single integrated line of business.

Question No. 5

As shown in other accompanying schedules, the company's 1973 domestic earnings of $184 million were 7.9 percent less than 1972 domestic earnings of $200 million. Domestic earnings for the fourth quarter 1973 were 43 percent less than for the comparable 1972 period. This decline in earnings is mainly attributable to the following circumstances: Increased cost of purchased crude oil; higher payments to governments of foreign production areas; inability to pass through increased costs on a timely basis; and substitution of purchased oil for equity oil during the period of restricted supplies.

QUESTION NO. 6—PART A

STANDARD OIL CO. OF CALIFORNIA

DOMESTIC OPERATIONS—COMPANY AND MAJORITY-OWNED SUBSIDIARIES [1]

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Shareholders' equity at Jan. 1	$58,412	$3,468	$3,601	$3,739	$3,883	$4,032	$4,187	$4,552	$5,016	$5,544	$6,138	$6,804	$7,548
Net income	4,079	242	251	261	271	281	292	317	350	386	428	474	526
Dividends at 45 percent of net income	(1,835)	(109)	(113)	(117)	(122)	(126)	(131)	(143)	(157)	(174)	(193)	(213)	(237)
Capital recovery plus exploration expense	9,426	428	469	517	569	629	696	771	856	951	1,057	1,175	1,308
Net cash available	11,670	561	607	661	718	784	857	945	1,049	1,163	1,292	1,436	1,597
Capital and exploration expense plus working capital additions [2]	18,458	773	860	957	1,065	1,187	1,321	1,519	1,708	1,908	2,130	2,377	2,653
Net outside financing (direct debt and lease financing)—limited to 38 percent of total capital [3]	4,118	212	253	296	347	403	260	284	324	363	407	458	511
New equity required	2,670						204	290	335	382	431	483	545
Repayment of existing direct debt and direct debt portion of new financing [4]	1,051	28	24	23	22	30	54	81	103	118	236	153	179
Gross debt and lease financing [5]	5,169	240	277	319	369	433	314	365	427	481	643	611	690

[1] Rate of return on 1st of year shareholders' equity—1964-73 average—6.97 percent.

[2] Capital expenditures based on Socal's historical percentage of industry applied to independently published industry estimates.

[3] Direct debt and lease financing in amounts that maintain total capital ratios at 25 percent debt, 13 percent lease financing.

[4] Actual schedule of existing debt, plus new debt at 10 percent per year commencing in 5th year.

[5] Represents amounts required in new issues.

QUESTION NO. 6—PART B

STANDARD OIL CO. OF CALIFORNIA

DOMESTIC OPERATIONS—COMPANY AND MAJORITY-OWNED SUBSIDIARIES[1]

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Shareholders' equity at Jan. 1	$60,150	$3,468	$3,668	$3,879	$4,102	$4,338	$4,588	$4,852	$5,132	$5,575	$6,157	$6,822	$7,569
Net income	6,294	363	384	406	429	454	480	508	537	583	644	714	792
Dividends at 45 percent of net income	(2,831)	(163)	(173)	(183)	(193)	(204)	(216)	(228)	(242)	(262)	(290)	(321)	(356)
Capital recovery plus exploration expense	9,426	428	469	517	569	629	696	771	856	951	1,057	1,175	1,308
Net cash available	12,889	628	680	740	805	879	960	1,051	1,151	1,272	1,411	1,568	1,744
Capital and exploration expense plus working capital additions[2]	18,494	788	876	975	1,085	1,208	1,344	1,497	1,666	1,890	2,129	2,380	2,656
Net outside financing (direct debt and lease financing)—limited to 38 percent of total capital[3]	4,131	160	196	235	280	329	384	446	367	357	407	458	512
New equity required	1,474								148	261	311	354	400
Repayment of existing direct debt and direct debt portion of new financing[4]	1,037	28	24	23	22	30	49	70	96	120	239	156	180
Gross debt and lease financing[5]	5,168	188	220	258	302	359	433	516	463	477	646	614	692

[1] Rate of return on 1st of year shareholders' equity = 1.5 × 1964 73 average = 10.46 percent.

[2] Capital expenditures based on Socal's historical percentage of industry applied to independently published industry estimates.

[3] Direct debt and lease financing in amounts that maintain total capital ratios at 25 percent debt, 13 percent lease financing.

[4] Actual schedule of existing debt, plus new debt at 10 percent per year commencing in 5th year.

[5] Represents amounts required in new issues.

QUESTION No. 7

Percent of U.S. refined product sales derived from foreign crude oil:

1973	47.2
1972	37.2
1971	30.6
1970	22.6
1969	28.5
1968	30.1
1967	17.7
1966	26.3
1965	22.6
1964	21.7

These ratios are based on uncertified data, using arbitrary assumptions in some years as to exchange transactions and purchase-sell deals. To the extent identifiable in our records, imported products have been treated as derived from foreign crude oil; the derivation of domestic-purchased products is not ascertainable and such products have been assumed to have the same foreign domestic composition as our own-manufactured products. The weight given foreign crude oil in the above percentages has been determined by the ratio of imported crude oil to total U.S. crude runs. Imported unfinished products are assumed to have been converted to finished products on a one-to-one ratio. Inventory effects have been ignored.

QUESTION No. 8

Except in a few limited cases involving export of specialty products like lubricating oils or petrochemicals, Socal has had no problems related to possible shifting of United States profits to foreign subsidiaries.

Instead, Socal pricing problems have involved relationships between two U.S. companies. This situation does not involve a shift of U.S. profits; rather, it involves a determination as to which of several U.S. companies should earn the profits. Internal Revenue Code Section 482 is designed to deal with this situation and it has been our experience that the Service has exercised appropriate diligence in handling its responsibilities in this area.

QUESTIONS NO. 9 AND NO. 10

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
QUESTION NO. 9										
Foreign capital and exploration expenditures[1]	$333	$256	$376	$260	$221	$165	$140	$104	$127	$124
Foreign net income	660	347	326	261	234	241	218	186	163	143
Net increase in foreign long-term debt and bank borrowings[1]	(165)	6	166	115	44	64	113	6		25
Total	495	353	492	376	278	305	331	192	163	168
Expenditures as percent of total	67	73	76	69	80	54	42	54	78	74
QUESTION NO. 10										
Domestic operations:										
Return on equity from question No. 1 (percent)	5.5	6.4	6.0	6.3	7.4	7.4	7.0	7.7	7.7	6.9
Theoretical return on equity without statutory depletion allowance (percent)	3.5	4.6	4.1	4.5	5.2	4.9	4.7	5.5	5.6	4.9

[1] Company and majority-owned subsidiaries.

Note.—It is our belief that this is a meaningless and completely misleading answer. Such an answer assumes that there would have been no difference in economic assumptions, investment levels or price levels, or any of the other factors that enter into the complex economics of the industry. It is inconceivable that there would not have been less independent drilling, less drilling by integrated companies, different prices and a myriad of other changes in the industry, if percentage depletion had not been allowed.

STANDARD OIL CO. (INDIANA)

STANDARD OIL CO. (INDIANA)
Chicago, Ill., April 8, 1974.

Mr. BOB WILLAN,
U.S. Senate Committee on Finance,
Washington, D.C.

DEAR SIR: Pursuant to your written request and our subsequent telephone conversations, we are furnishing the attached data for Standard Oil Company (Indiana). This data is being furnished exclusively for use by the Senate Finance Committee and in accordance with our understanding that the individual company information will not be publicly disclosed.

If you have any questions pertaining to the attached data, please feel free to call me.

Yours truly,

F. J. SAATHOFF,
Director, External Reporting and Policy.

STANDARD OIL CO. (INDIANA)
Chicago, Ill., April 18, 1974.

Mr. BOB WILLAN,
U.S. Senate Committee on Finance,
Washington, D.C.

DEAR SIR: This will confirm our telephone conversation today regarding data for Standard Oil Company (Indiana) which was furnished you by my letter dated April 8, 1974.

It will be satisfactory for Standard's individual company data to be disclosed, provided that any such disclosure would include comparable data for all the companies responding to your survey.

Yours truly,

F. J. SAATHOFF,
Director, External Reporting and Policy.

1. What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

(*a*) Where applicable, please give the source of this information.

(*b*) Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing Industries? If so, please explain.

(*c*) How does the rate of return on U.S. petroleum investment, as described above, compare with your rate of return on other investments?

[See attached schedule.]

QUESTION NO. 1

STANDARD OIL CO. (INDIANA)

[Dollar amounts in thousands]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate petroleum operations:										
Net income	$466,414	$348,493	$345,570	$320,033	$307,835	$282,851	$261,185	$242,707	$206,181	$186,634
Net assets	$3,722,115	$3,419,076	$3,239,333	$3,038,500	$2,822,718	$2,764,793	$2,733,388	$2,641,776	$2,616,986	$2,533,625
Rate of return[1] (percent)	13.1	10.5	11.0	10.9	11.0	10.3	9.8	9.2	8.0	7.5
U.S. petroleum operations:										
Net income	$380,572	$288,632	$245,942	$258,186	$259,778	$246,491	$260,670	$242,531	$221,612	$214,623
Net assets	$2,628,513	$2,468,260	$2,288,300	$2,187,900	$2,060,115	$2,053,613	$2,089,616	$2,123,666	$2,093,791	$2,086,637
Rate of return[1] (percent)	14.9	12.1	11.0	12.2	12.6	11.9	12.4	11.5	10.6	10.3
Foreign petroleum operations:										
Net income	$85,842	$59,861	$99,628	$61,847	$48,057	$36,360	$3,515	$176	($15,431)	($27,995)
Net assets	$1,093,602	$950,816	$951,000	$850,600	$762,603	$711,180	$643,772	$518,110	$523,195	$446,988
Rate of return[1] (percent)	8.4	6.3	11.1	7.7	6.5	5.4	0.6	....	(3.2)	(6.7)

[1] Calculated on average net assets.

QUESTION NO. 2

STANDARD OIL CO. (INDIANA)

PETROLEUM OPERATIONS

[Dollar amounts in thousands]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
United States	$380.572	$288.632	$245.942	$258.186	$259.778	$246.491	$260.670	$242.531	$221.612	$214.629
Foreign	85,842	59,861	99,628	61,847	48,057	36,360	3,515	176	(15,431)	(27,995)
Total	466,414	348,493	345,570	320,033	307,835	282,851	264,185	242,707	206,181	186,634
Sales:										
United States	$4,663,390	$4,113,457	$3,839,000	$3,666,000	$3,478,000	$3,283,000	$3,083,000	$2,992,000	$2,786,000	$2,644,000
Rate of profitability (percent)	8.2	7.0	6.4	7.0	7.5	7.5	8.5	8.1	8.0	8.1
Foreign	$1,033,128	$740,356	$632,036	$550,149	$450,384	$357,956	$293,427	$204,356	$158,152	$127,812
Rate of profitability (percent)	8.3	8.1	15.8	11.2	10.7	10.2	1.2	0.1	(9.8)	(21.9)
Total	$5,696,518	$4,853,813	$4,471,036	$4,216,149	$3,928,384	$3,640,956	$3,376,427	$3,196,356	$2,944,152	$2,771,812
Rate of profitability (percent)	8.2	7.2	7.7	7.6	7.8	7.8	7.8	7.6	7.0	6.7
Taxes:										
United States	$271,700	$245,500	$228,300	$239,800	$206,000	$230,500	$178,000	$156,800	$160,700	$114,200
Rate of profitability (percent)	58.4	54.0	51.9	51.9	55.8	51.7	59.4	60.7	58.0	65.3
Foreign	$135,800	$17,000	$11,200	$3,100	($3,100)	($25,900)	4,800	$3,900	$4,600	$5,800
Rate of profitability (percent)	38.7	77.9	89.9	95.2	106.9	347.6	42.3	4.3	(142.5)	(126.1)
Total	$407,500	$262,500	$239,500	$242,900	$202,900	$204,600	$182,800	$160,700	$165,390	$120,000
Rate of profitability (percent)	53.4	57.0	59.1	58.9	60.3	58.0	59.1	60.2	55.5	60.9
Employed capital:										
United States	$3,400,910	$3,260,707	$3,107,862	$3,049,110	$2,910,960	$2,753,314	$2,614,841	$2,635,156	$2,444,959	$2,458,311
Rate of profitability [1] (percent)	12.4	10.1	9.2	9.5	10.1	10.1	10.8	9.8	9.6	8.7
Foreign	$1,566,099	$1,202,825	$1,122,061	$1,006,621	$911,570	$787,370	$681,539	$543,284	$552,466	$447,034
Rate of profitability [1] (percent)	6.8	6.1	9.7	7.1	6.1	5.2	0.8	0.3	(2.7)	(6.3)
Total	$4,967,009	$4,463,532	$4,229,923	$4,055,731	$3,822,530	$3,540,684	$3,296,380	$3,178,440	$2,997,425	$2,905,345
Rate of profitability [1] (percent)	10.7	9.0	9.3	8.9	9.1	9.0	8.8	8.1	7.3	6.4

[1] Based on adjusted net income.

QUESTION NOS. 3 AND 9

STANDARD OIL CO. (INDIANA)

[Dollar amounts in thousands]

Year	Capital expenditures and exploration expense	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery	Adjusted earnings plus capital recovery (4+5)	Ratios: capital expenditures and exploration expense as a percent of — Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings plus capital recovery (1÷6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic petroleum operations:									
1964	$357,389	$214,629	$94,359	$308,988	$215,070	$524,058	166.5	115.7	68.2
1965	341,310	221,612	86,574	308,186	243,768	551,954	154.0	110.7	61.8
1966	374,865	242,531	97,326	339,857	239,878	579,735	154.6	110.3	64.7
1967	434,780	260,670	94,991	355,661	218,951	574,612	166.8	122.2	75.7
1968	479,445	246,491	109,532	356,023	234,706	590,729	194.5	134.7	81.2
1969	528,064	259,778	94,375	354,153	251,019	608,172	203.3	149.1	86.8
1970	446,782	258,186	78,062	336,248	273,283	609,531	173.0	132.9	73.3
1971	424,113	245,942	85,654	331,596	247,394	578,990	172.4	127.9	73.3
1972	549,000	288,632	99,227	387,859	274,938	662,797	190.2	141.5	82.8
1973	637,574	380,572	118,286	498,858	305,227	804,085	167.5	127.8	79.3
10 yr. total	4,573,322	2,619,043	958,386	3,577,429	2,507,234	6,084,663	174.6	127.8	75.2
Foreign petroleum operations:									
1964	104,622	(27,995)	33,752	5,757	17,215	22,972	(1)	(1)	455.4
1965	112,254	(15,431)	33,805	18,374	21,977	40,351	(1)	610.9	278.2
1966	124,575	176	49,139	49,315	33,244	82,559	(1)	252.6	150.9
1967	147,453	3,515	40,446	43,961	35,396	79,357	(1)	335.4	185.8
1968	179,220	36,360	40,530	76,890	37,203	114,093	492.9	233.1	157.1
1969	221,492	48,057	63,148	111,205	39,560	150,765	460.9	199.2	146.9
1970	187,328	61,847	55,455	117,302	53,412	170,714	302.9	159.7	109.7
1971	244,221	99,628	61,840	161,468	62,226	223,694	245.1	151.3	109.2
1972	322,638	59,861	91,847	151,708	81,161	232,869	539.0	212.7	138.5
1973	400,114	85,842	86,486	172,328	98,931	271,259	466.1	232.2	147.5
10 yr. total	2,043,917	351,860	556,448	908,308	480,325	1,388,633	580.9	225.0	147.2

[1] The percent is not meaningful.

4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

U.S. PETROLEUM EARNINGS PAID IN DIVIDENDS

	Amount	Percent
1973	$133,425	35
1972	128,417	45
1971	114,360	46
1970	131,982	51
1969	132,236	51
1968	119,150	48
1967	125,196	48
1966	112,765	46
1965	109,866	50
1964	94,044	44

5. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion on increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin (differentiate between company controlled retailers and independent retailers)?

Fourth quarter 1973 earnings from U.S. petroleum operations exceeded comparable earnings for fourth quarter 1972 by approximately $25 million. This increase was due principally to the following factors.

	In millions of dollars
Increased revenues from crude and NGL sales	64
Increased revenues from sales of natural gas, fertilizers, pesticides, TBA, etc	24
Increased costs, other than cost of refined products sold	(30)
Increased realization from refined products:	
Due to price increases through May, 1973	40
Due to price increases under phase IV	42
Increased cost of refined products sold	(115)
	25

For gasoline supplied by our company, the total increase in retail pump prices during the fourth quarter 1973 was due to increased costs reflected in our dealer tankwagon price, plus any related changes in taxes based on a percentage of sales price. Since our product costs increased more rapidly than our realizations during the fourth quarter, the profit reflected in dealer tankwagon prices would have decreased during this period. Likewise service station operators were prohibited by regulation from increasing their margins during this period; however they were permitted a one-cent increase in margin on January 1, 1973.

The above answer applies to all of our gasoline sales to retailers and assumes compliance with Phase IV regulations by all retailers supplied.

6. Provide an estimate of your capital requirements in the United States for the period 1974–85; (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–1973; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

(See attached schedules. In addition, we have attached a copy of a statement we prepared in conjunction with hearings before the Permanent Subcommittee on Investigations which addresses the question of the rate of return necessary to achieve effective petroleum industry performance.)

QUESTION NO. 6

STANDARD OIL CO. (INDIANA)

U.S. PETROLEUM OPERATIONS CAPITAL AVAILABILITY WITH RETURN ON SHAREHOLDERS' AVERAGE EQUITY AT THE 1964-73 AVERAGE OF 12.0 PERCENT

[Dollars in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Shareholders' equity Jan. 1		$2,629	$2,808	$3,000	$3,204	$3,423	$3,657	$3,906	$4,173	$4,458	$4,762	$5,087	$5,434
Return on average equity (percent)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)
Net income	$5,776	326	349	372	398	425	454	485	518	553	591	631	674
Depreciation, depletion, and amortization (10 percent of Jan. 1 equity)	4,654	263	281	300	320	342	366	391	417	446	476	509	543
Less dividends (45 percent of net income)	2,600	147	157	168	179	191	205	218	233	249	266	284	303
Funds generated	7,830	442	473	504	539	576	615	658	702	750	801	856	914
Net borrowings (33 percent of delta equity)	1,059	60	64	68	73	78	83	89	95	101	108	116	124
Capital availability	8,889	502	537	572	612	654	698	747	797	851	909	972	1,038
Debt repayments (10 percent per year):													
1974 borrowings	42						6	6	6	6	6	6	6
1975 borrowings	38							6	6	7	6	6	7
1976 borrowings	34								7	7	6	7	7
1977 borrowings	29									7	7	8	7
1978 borrowings	23										8	8	7
1979 borrowings	16											8	8
1980 borrowings	9												9
Total repayments	191						6	12	19	27	33	43	51
Debt on Dec. 31 [1]		903	967	1,035	1,108	1,186	1,269	1,358	1,453	1,554	1,662	1,778	1,902)
Equity on Dec. 31 [1]		2,808	3,000	3,204	3,423	3,657	3,906	4,173	4,458	4,762	5,087	5,434	5,805
Debt/equity Dec. 31 (percent)		(32)	(32)	(32)	(32)	(32)	(32)	(33)	(33)	(33)	(33)	(33)	(33)

AVERAGE EQUITY AT 150 PERCENT OF THE 1964-73 AVERAGE OF 12 PERCENT (12×1.5=18)

Shareholders' equity Jan. 1		$2,629	$2,902	$3,205	$3,538	$3,970	$4,314	$4,763	$5,260	$5,808	$6,413	$7,081	$7,818
Return on average equity (percent)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
Net income	$10,917	498	550	607	670	740	817	902	996	1,100	1,215	1,341	1,481
Depreciation, depletion, and amortization (10 percent of Jan. 1 equity)	5,764	263	290	321	354	391	431	476	526	581	641	708	782
Less dividends (45 percent of net income)	4,913	225	247	274	301	333	368	405	448	495	547	604	666
Funds generated	11,768	536	593	654	723	798	880	973	1,074	1,186	1,309	1,445	1,597
Net borrowings (33 percent of delta equity)	2,002	91	101	111	123	136	150	165	183	202	223	246	271
Capital availability	13,770	627	694	765	846	934	1,030	1,138	1,257	1,388	1,532	1,691	1,868
Debt repayments (10 percent per year):													
1974 borrowings	63						9	9	9	9	9	9	9
1975 borrowings	60							10	10	10	10	10	10
1976 borrowings	55								11	11	11	11	11
1977 borrowings	48									12	12	12	12
1978 borrowings	40										13	14	13
1979 borrowings	30											15	15
1980 borrowings	17												17
Total repayments	313						9	19	30	42	55	71	87
Debt on Dec. 31[1]		934	1,035	1,146	1,269	1,405	1,555	1,720	1,903	2,105	2,329	2,574	2,845
Equity on Dec. 31[1]		2,902	3,205	3,538	3,907	4,314	4,763	5,260	5,808	6,413	7,081	7,818	8,633
Debt/equity Dec. 31 (percent)		(32)	(32)	(32)	(32)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)

[1] On Dec. 31, 1973 equity was 63.7 percent of consolidated company equity. Assumes debt is 63.7 percent of consolidated company debt on Dec. 31, 1973.

Question No. 9

STATEMENT ON RATE OF RETURN NECESSARY TO ACHIEVE EFFECTIVE PETROLEUM INDUSTRY PERFORMANCE

The supply of energy is directly related to expenditures made to provide that supply. The current shortage of petroleum is a direct consequence of inadequate capital spending, which is itself a product of inadequate earnings during the past several years.

A November, 1973 update of the 1972 Chase Manhattan Bank analysis of the 30 leading petroleum companies estimates that "the worldwide financial needs of the petroleum industry between 1970 and 1985 are expected to amount to $1.35 trillion. The industry must depend on three sources for this capital: profits, capital recovery, borrowed capital. After allowing for the amount of money prudent management can be expected to borrow, and the maximum amount of capital recovery currently permitted by law, the industry's indicated dependence upon profits in the 1970–1985 period amounts to $755 billion."

Based on our assessment of the requirements of the domestic petroleum industry, an after-tax rate of return on stockholders' equity of 15 to 19 percent will be required to make the necessary contribution to a national self-sufficiency in energy within the next 10 years. Our estimates take into account the rate of inflation that will affect the dollar costs of reaching such a goal, and the extent to which the industry can reasonably be expected to attract investors.

Standard Oil's estimated 1973 earnings increased 36 percent over 1972, yet the increase to this level achieved only a 12.9 percent return on shareholders' equity. With operations largely confined to the U.S., Standard attained an average rate of return of only 9.2 percent during the 10-year period from 1963 through 1972. In 1972, the company's average rate of return was 10.2 percent.

Comparative data on rates of return provided by the First National City Bank show that rate of return or shareholders' equity for the U.S. petroleum industry averaged 11.8 percent over the 10 years 1963 through 1972. This was slightly below the 12.2 percent average for all manufacturing. Among the 25 leading capital-intensive industries included in the bank's survey petroleum ranked fifteenth in rate of return. At the same time, the petroleum industry ranked first as the most capital-intensive of these 25, with an investment of $150,000 per employee in 1968, more than three times the level of the second-ranked industry.

Year-by-year review of FNCB data reveals that the petroleum industry's rate of return fell below the total manufacturing average in seven of the 10 years, and declined without interruption after 1968, to the lowest level of the decade in 1972.

Over the past 10 years, from 1963 to 1972, Standard Oil Company (Indiana) has reinvested 53 percent of its net income and paid the remaining 47 percent as dividends to shareholders. During this same 10-year period, the company's total capital and exploration expenditures have been almost 2.5 times net income.

For the 10-year period (1963–1972), the source of funds for Standard's capital expenditures, debt service, and increased working capital has been:

	Percent of total funds
Reinvested net income	25
Capital recovery (depreciation, depletion, amortization, and so forth)	47
New borrowings	17
Capital stock issuance, sale of properties, and so forth	11

During these same 10 years, total capital and exploration expenditures have been as follows:

	Percent
Exploration and production	64
Manufacturing, transportation, marketing, and so forth	36
Total	100

Over the past decade, net fixed assets of the domestic U.S. petroleum industry in activities other than marketing have grown at a compound annual rate of approximately 6 percent. Yet during this period, domestic crude oil and natural gas liquids producing capacity has grown only 0.7 percent, while domestic refining capacity has increased 2.9 percent. Meanwhile, U.S. consumption of petroleum has increased at an annual rate of nearly 5 percent.

Thus, while the growth of industry assets has exceeded the growth of real consumption, expansion of producing and refining capacity has lagged far behind.

This has been a direct consequence of the steadily increasing cost of finding, producing and refining domestic oil, and competition from imports. Only a portion of this cost is attributable to the general inflationary trend; much is due to the increasingly difficult and costly task of finding and producing new crude oil and natural gas.

In common with the remainder of the domestic oil industry, Standard Oil is faced with vastly increased requirements for funds if it is to make a significant contribution toward expanding the U.S. energy supply base. For example: In 1970 Standard's capital expenditures totaled $713 million, of which some $400 million was for exploration and production. In 1973 the total was over $1 billion, with some $722 million for exploration/production. For 1974 the company has budgeted approximately $1 billion in exploration and production capital expenditures alone, with another $400 million earmarked for other phases of its business. In sum, the company's capital expenditure plans for 1974 represent over 2.7 times its estimated 1973 earnings.

The conclusion must be drawn that oil industry earnings for 1973, far from representing excess or windfall profits, represent a necessary recovery from depressed earnings which have characterized the petroleum industry in recent years. Thus, 1973 earnings provide, much more than in prior years, a viable basis for an evaluation of what constitutes adequate earnings for the industry. It is clear that a sound national policy calls for a reversal of the depressed oil industry profit trend of the past decade.

The petroleum industry's 1973 investment base must generate an average annual earnings rate of 15 to 19 percent over the long term, if the industry is to respond adequately to the energy demands now facing the United States and the remainder of the Free World.

7. What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?

U.S. sales derived from foreign crude

Year:	*Percent*	Year—Continued	*Percent*
1973	16	1968	5
1972	10	1967	4
1971	8	1966	5
1970	5	1965	5
1969	5	1964	5

8. Describe the typical situations in which you have contractual relationships with a foreign subsidiary involving a pricing problem.

To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary?

Do you recommend any alternative approach for regulation of such transactions to prevent the shifting of United States profits to foreign subsidiaries?

One typical situation in which we have a contractual relationship with a foreign subsidiary involving pricing is the area of shipping, in which ocean transportation is charged by a foreign subsidiary to a U.S. affiliate. In this situation the foreign subsidiary enters into a new contract each year with the U.S. affiliate and the prices charged thereunder are based on quotations received from four independent ship brokers. We believe that this prevents the shifting of profits from the U.S. to the foreign subsidiary and is in conformity with present tax regulations.

9. Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

[See schedule attached to Question 3.]

10. What would have been the impact on rate of return on petroleum assets in the United States if there had been no depletion allowance?

	Rate of return if no depletion allowance	Rate of return with depletion allowance
1971	8.7	11.0
1970	9.9	12.2
1969	9.2	12.6
1968	8.4	11.9

SHELL OIL CO.

PREPARED STATEMENT OF G. S. WOLBERT, JR., VICE PRESIDENT AND GENERAL COUNSEL, SHELL OIL CO.

INTRODUCTION

My name is G. S. Wolbert, Jr. Although I am presently Vice President and Associate General Counsel of Shell Oil Company, my appearance is due to the fact that I was Shell's Vice President-Finance from November, 1970, until December, 1973, and previously served as Treasurer of the Company from October, 1968, until becoming Vice President-Finance.

We in Shell are grateful for the opportunity to participate in this Committee's development of information on the profits and rates of return realized by oil companies from their operations in the United States during the 10 year period 1964 through 1973. In order to provide as useful a document as possible we have arrayed in tabular appendices our data on the points which the Committee requested us to address. To the extent that analysis and comment on such data would appear to be warranted we have provided same in the text, arranged in order to correspond with the attached appendices.

Before entering upon a point-by-point discussion, I would like to make a general comment on our figures and their use to indicate the economic condition of enterprises engaged purely in petroleum operations solely in the United States. Broadly speaking, my company probably comes as close to fitting this description as does any integrated oil company of substantial size in the industry. However, we do conduct, within the Shell Oil corporate entity and in exceedingly close conjunction with our domestic petroleum business, a petrochemical venture whose revenues in 1973 accounted for about 13% of the company's total. While a facile mind can develop many distinguishing characteristics between the chemical and oil "businesses", the substantial amounts of products and services that are interfaced between these activities (averaging in excess of 20% of our chemical total costs and expenses) have caused us to consider ourselves to be conducting a *single line of business.* I might add, incidentally, that governmental agencies to whom we report or by whom we are regulated, e.g., the Securities and Exchange Commission and the Federal Energy Office, have accepted this conclusion. We gave serious consideration to attempting to extract from our numbers a derived chemical balance sheet and income statement so as to create a "purified residue" for the Committee's purposes, but the arbitrary nature of any allocation of shared facilities, utilities, and services and the fact that these allocations would change from year to year, thereby precluding comparability between years led us to the conclusion that it would be far more misleading to submit figures stripped of notional chemical financial statements than it would be to use our actual figures, with the mental reservation that they do contain an element that is not purely petroleum. We have made a separation between "Domestic" and "Total Company" figures by excluding from "Domestic" the following: (1) Profits from a foreign subsidiary in the years 1964 through 1970 whose operations primarily consisted of the purchase and resale of foreign crude. See Appendix H. (2) Losses primarily incurred in foreign crude oil exploration ventures in the years 1970 through 1973. See Appendix H. These are discrete numbers and can readily be broken out.

RATES OF RETURN

Turning now to the Committee's points of interest, we first examine the Rate of Return realized on Stockholders' Investment. Most analysts use this test as a proxy of industrial health and investor interest and we believe that it probably is the single most significant ratio. Appendix A shows Shell's rates, by year, for the period 1964 through 1973. Because we already had on hand certain comparisons which use our regular Rate of Return ("Total Company") we have listed rates on both our normal company basis and on a "domestic" basis for the special purpose of this inquiry.

In Appendix B we show our "Total Company" return on Shareholder Investment against time and compared it with our Return on Total Capital. As you will note, the latter line is consistently lower than Return on Shareholders' Investment. While we do not urge this ratio as a supplanter of Return on Shareholder Investment, we do suggest that as our capital investment requirements cause us to borrow more and more money, the significance of this ratio will increase if we are unable to hold the line on our debt-equity ratio.

We also plotted two other curves, one showing the historical Rate of Return on Shareholders' Investment for all U.S. Manufacturing Corporations and the other showing such rate for U.S. Utilities. Unfortunately, the source of our data for Utility Companies only goes back to 1964.

Comparison of these curves serves two purposes. One provokes a visceral reaction that if our Rate of Return is below all U.S. Manufacturing and/or Utility Companies, we don't have an excess profits problem; what we should be concerned about is how we can get our earnings *up* to a level that will be attractive to the investor, which brings us to our second point. We must compete in a free capital market for funds to finance expansion. It is difficult to say *a priori* precisely what return will be required to attract funds because "investor expectations" is an abstraction which varies, among other things, with confidence, degree of risk and rate of inflation. We do have a benchmark, however, in public utilities. Because the cognizant regulatory agency is charged with seeing that utility rates are as low as possible to protect the consumer, yet sufficiently high to attract capital, those rates should set a floor upon which to construct an appropriate target for oil company returns. For utilities, rates over the past ten years have been so low, that by not being able to generate enough funds themselves; they had to get out in the market and borrow heavily so their coverage rate has gone down consistently, and many utilities have slipped in their rating.

An investor will appraise alternate investment opportunities by means of a discounted cash flow test. Because of differences in the operation of, and in appropriate methods of accounting for, a public utility and a company engaged in the oil business of equivalent discounted cash flow earning power will have different Rates of Return on Shareholder Investment. We estimate that because of the oil production industry's fast write-offs, long lead times between first exploratory efforts and production and the practice of expensing dry holes a company engaged primarily in oil and gas production would require about 3 percentage points higher rate of return than a public utility in order to equal the utility's discounted cash flow earning power. As we go downstream toward refinery and marketing the gap is narrowed and we believe that an independent refiner/marketer would equilibrate about ½ point higher than the utility rate. We view our own business as being somewhere in between these two, say about 1½ to 2 points higher than a utility with an equivalent discounted cash flow.

Due regard must be given to the element of risk. If our company simply equaled the earning power of a public utility, we would have an exceedingly difficult time attracting capital. Surely the investor is entitled to, and will demand, a factor for risk. There is no consensus concerning the magnitude of this premium. We do have studies which evaluate the risk differential between an integrated oil company and a public utility to be about 2 percentage points.

Utilizing these concepts, we can construct a rule-of-thumb figure for a domestic integrated oil company. Starting with the 11.5% median Rate of Return on Shareholders' Investment which the gas, telephone and electric utilities have averaged during the past ten years, we add the d.c.f. equilibration factor to 1½ to 2 points, plus the risk premium of 1½ to 2 points to derive a total of around 15% for domestic integrated oil companies.

Lest this rough approximation be taken as an absolute, let me hasten to add that this figure is at best simply a measure of centricity—a 10 year *average* of *median* returns. Let me use our own figures from Appendix A to illustrate two points: first, Shell's domestic average of 12.35% for the 10 year period might be balanced by another company whose internal growth rate was faster than ours. Its 10 year average rate of, say, 16.65% could not be taken to indicate excess profits because of the very nature of a median, someone has to be above it; second, the depressed earnings experienced by Shell in the past five years (1969–73 average "domestic" return of 10.64%) would require five good years averaging around 18.35% to bring us to the 10 year average median we have targeted. This is a most important point. If we cynically disregard the bad years and impose a so-called "excess profits" tax on the good years, there is no way that the industry can finance the on-going capital investments that will be required to meet even severely constrained consumption of, let alone normal demand for, energy in the future.

One final point before leaving the subject of Return on Shareholders' Investment. Up to now, we have approached investor expectations from a historical basis. This is a satisfactory technique so long as inflation trends are such that the investor feels confident of accommodating inflation in his calculations. If the trend causes the investor to become uncertain about the future value of his investment, his expectations are bound to rise substantially above the levels we have discussed.

CERTAIN INTERESTING RATIOS

In Appendix C we have tabulated separately for total company and for domestic operations, ratios derived from four comparisons: (1) net income to revenues (exclusive of consumer excise and sales taxes); (2) net income to taxes (exclusive of consumer excise and sales taxes); (3) net income to labor costs; and (4) net income (adjusted to reflect after-tax interest expense) to total capital (Shareholders' Investment plus long-term debts). These figures pretty well speak for themselves with perhaps one comment: our net income to taxes percentage fell 30% from 1968 (last year prior to the so-called Tax "Reform" Act of 1969) to 1972.

Appendix D lists yearly Capital Expenditures and Exploration Expense both in absolute dollar amount and as a percentage of internally generated funds (including exploration expense). It is no incidence that our 1964-67 spending/internal generation ratios were soon followed by three $150 million, 25 year debt offerings and a $300 million equity financing in 1968. We have trimmed back our expenditures since that time but, looking to the future, if Shell is to bear its share of the search for energy it must have an increased capacity to internally generate a higher level of funds as well as to attract additional investment from equity holders and long-term fixed obligation lenders. We will have more on this point shortly.

One important element in the attraction of equity investment is a stable dividend policy. Appendix E provides information on the dollar amount and percentage of petroleum earnings paid out in dividends by Shell during the period 1964 to 1973. Shell has not raised its dividend per share since 1969. On the other hand, despite the sharp decrease in its earnings during 1970 through 1972, it did not reduce its dividend. Serious consideration was given to cutting the dividend, especially in 1970 when the payout ratio rose to 68.2%. However the investment community places heavy weight on certainty of dividend, and our examination led us to conclude that as a responsible company in a non-cyclical industry which was not faced with an impending liquidity crisis, we should keep faith with our shareholders and maintain the dividend until our circumstances dictated otherwise. I suspect that we were influenced, consciously or unconsciously, by the fact that although the dividend rate as a percentage of net earnings was high, the shareholder piece of the total revenue pie was down around 3.7% in 1970 to 3.3% in 1972.

SOME COMMENTS ON FOURTH QUARTER 1973 RESULTS AND RETAIL PRICES

Because of the production cutbacks and the embargo imposed by O.A.P.E.C. countries on shipments to the United States and the resulting shortage of gasoline, home heating oil and residuals there has been a wide interest expressed in Fourth Quarter Earnings and Retail Prices. The short answer in our case is that Shell Oil Company's earnings *declined* 2 percent from the Fourth Quarter of 1972. Except for the relief in the pricing restrictions on domestic crude oil last September through the two-tier pricing system, product price increases by the Company in 1973 were limited to passing through higher costs of purchased crude oil and products already incurred. While current regulations allowed a dollar-for-dollar pass-through of the higher costs of crude oil and purchased products, they nevertheless impaired our earnings as well as our margins because higher costs incurred in one month could not be recovered in higher prices until the following month. The effect of this time lag continues to grow while costs are increasing rapidly and this was reflected in our lower earnings for the last quarter of 1973. The impact of this delay in recovery precludes meaningful analysis of the effect of normal growth of sales, of inflation, of absence of soft markets or of greater profit margins.

With respect to gasoline prices, Shell moved dealer tankwagon prices nationwide during the last quarter 1973 as follows:

September 15, 1973, 0.9¢ increase.
September 29, 1973, 0.2¢ increase.
October 6, 1973, 0.6¢ increase.
November 9, 1973, 1.0¢ increase.
December 1, 1973, 3.2¢ increase.
December 5, 1973, 0.8¢ *decrease*.

The total increase of 5.1¢ was strictly in accord with Phase IV Cost of Living Council regulations. The above increases in the tankwagon price were purely pass through of increased raw material costs and no profit element to the refiner/marketer is reflected in them.

Dealers had the legal right to pass the above-mentioned increases on to their customers; however, they were not authorized to add to their retail margin prevailing on May 15, 1973, unless it was less than seven and one-half cents. We believe that the vast majority of our dealers have priced their products to the public in accordance with the regulations.

A LOOK AT THE FUTURE—CAPITAL REQUIREMENTS UNDER TWO SCENARIOS

In order to avoid any suggestion that we were making an estimate, projection, or forecast of future earnings that might run afoul of S.E.C. rules, but at the same time desiring to provide realistic order-of-magnitude numbers useful for the Committee's examination, we agreed with the staff to run two cases holding our Return on Shareholders' Investment constant at the 1964-73 average (12.2%) and at 1.5 times that average (18.3%). We also agreed that the capital structure would be 62% equity, 25% direct debt and 13% indirect debt. We decided also to use the historical average for dividend rate (53% of net income), as well as holding write-offs, working capital, deferred taxes and property sales and salvage at their historical fraction of net investment. Average interest on debt was 7% and repayment of new debt was assumed to commence 5 years after it was incurred and to take the form of 25 equal annual installments. All new indirect debt was treated as if it were a ten year lease with equal annual payments with discount rate of 7%.

The results of these two scenarios are displayed on Appendix F, Table 1 (12.2% Return assumed) and Table 2 (18.3% Return assumed). Table 3 is the difference between the first two thereby showing the *additional* Capital Expenditures that would be made possible if a 18.3% return was achieved rather than if a 12.2% return was realized.

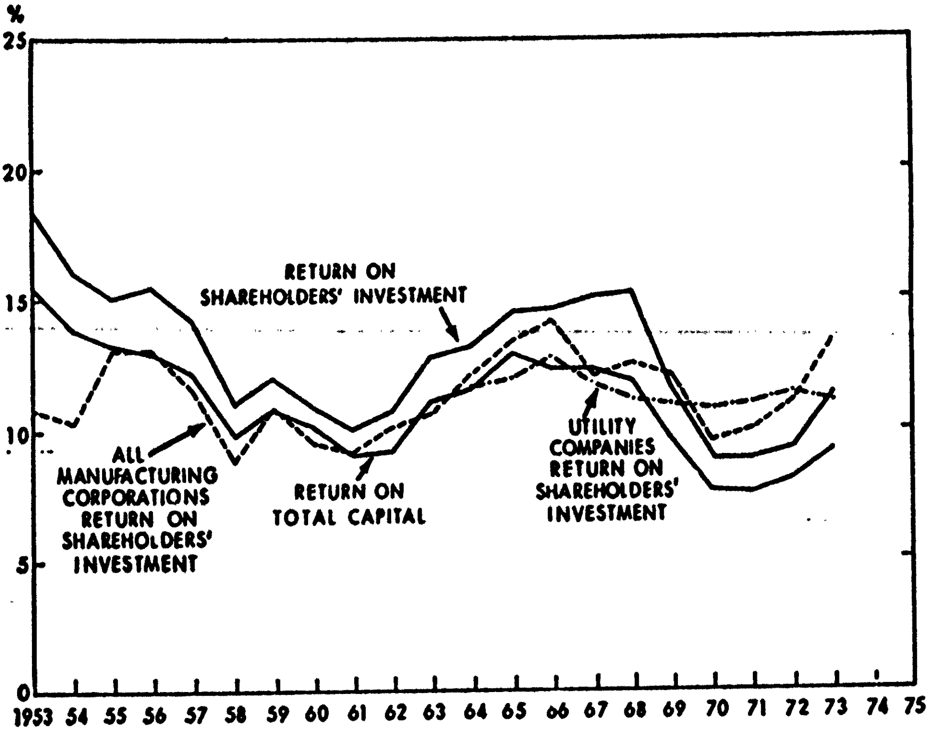
Perhaps a comment on the results is in order. Under the 12.2% return case, only 15.2 billion dollars through 1985 will be available for capital investments; under the 18.3% case this rises to 20.2 billion dollars. Although the direct debt and off-balance sheet financing assumed are somewhat higher than Shell's traditional levels, they certainly seem practical although the quality rating of issues could be reduced to the AA/A range. The problem that these model runs throws up is not so much whether this amount of capital expenditure is reasonable to expect, but rather is it *enough to do the job?* The National Petroleum Council has estimated the U.S. domestic oil industry capital requirements for 1971-1985 to be 278 billion dollars of 1970 vintage. *If Shell is to do its 8% share, its requirements would be 22 billion (1970) dollars.* Subtracting our 2 billion direct and indirect expenditures for 1971-1973 and converting the remaining unfulfilled expenditures to 1974 dollars, Shell's requirements would be 22 billion (1974) dollars. Thus we see that the capital expenditure capability arising from continued historical levels will fall far (i.e., 7 billion dollars) short. Even at the 18.3% level, there is a 2 billion shortfall. However, it is reasonably safe to assume that a steady 18.3% rate of return over this time period would make possible an equity offering somewhere along the way. Once again, though, one must ask in terms of the present inquiry, "what excess profits"?

FOREIGN CRUDE OIL PURCHASES AND INVESTMENTS

In Appendix G we show the percent of total U.S. petroleum product sales derived from imported crude.

The Company's foreign investment base was negligible during the applicable period. Although we had foreign source income during 1964 to 1970, as detailed in Appendix H, it was generated by a 100% owned foreign subsidiary engaged in purchasing and selling foreign crude oil which had virtually no capital investment. All earnings of this subsidiary were repatriated to the United States. Foreign oil exploration ventures commencing in 1970 and conducted to date are in the early stages and since practically all of exploration associated costs are expensed currently, very little capital investment is involved.

SHELL OIL COMPANY
RATE OF RETURN



APPENDIX A

PERCENTAGE RATE OF RETURN, AFTER TAXES, AS A PERCENTAGE OF SHAREHOLDER INVESTMENT AT BEGINNING OF YEAR

Year	Total company	Domestic
1964	13.2	12.5
1965	14.5	14.1
1966	14.6	14.4
1967	15.0	14.4
1968	15.1	14.9
1969	11.5	11.4
1970	8.9	9.4
1971	8.9	9.7
1972	9.2	10.1
1973	11.4	12.6

Note: Aside from the chemical venture which was discussed in the preliminary general comment, Shell Oil has no other material investments against which to compare the return rates listed above.

Source: Calculated from annual report; "domestic" derived by subtracting foreign income and expenditures from annual report figures. The data underlying the above rates of return differ from FTC form "MG" figures. The FTC requested consolidation of subsidiaries on the basis of taxability under the Internal Revenue Code. For the years 1964 through 1969 the "domestic" rates are derived from figures comparable to FTC reports and for the years 1970 through 1973, the "total company" rates should be compatible with FTC figures. Effective, the 4th quarter of 1973, the FTC revised their form so that net income would be the same as that used in our "domestic" calculation but the shareholders' investment would be "total company."

APPENDIX B

No debt capital was raised outside the United States. Equity capital of approximately $200 million was obtained from outside the United States in 1968; these funds were used for domestic investment.

At the moment, we do not have contractual relations with a foreign subsidiary involving a pricing problem. For this reason, we do not feel it is appropriate for us to engage in a detailed discussion of the possibility, under present tax regulations, of shifting U.S. profits to a foreign subsidiary. I content myself with simply making two observations. First, in the past the Internal Revenue Service has displayed ingenuity, persistence and resourcefulness in applying I.R.C. § 482 to this situation. Second, the new world crude situation with Governments as substantial crude sellers and everybody and his brother in the act as crude purchasers provides a much more informative marketplace.

CLOSING

The length of this statement devoted to addressing the questions propounded by the Committee already gives me distress. I do not intend to compound this distress by a wordy closing statement. I would like to reaffirm our appreciation of the opportunity to discuss these matters with the Committee. I would also like to leave one thought with you. We each have a fantastic task before us to bring the energy problem into manageable shape. We cannot afford many mis-starts or nonstarts. We need your help and we are prepared to assist you anyway we can. Let us resolve to work our problems out together.

APPENDIX C

PROFITABILITY RATIOS (EXPRESSED IN PERCENTAGES)

Year	Total company	Domestic
1. Net income to revenues (exclusive of consumer excise and sales taxes):		
1964	8.5	8.2
1965	9.1	8.9
1966	9.0	9.0
1967	9.2	9.0
1968	9.3	9.3
1969	8.1	8.1
1970	6.6	6.9
1971	6.2	6.8
1972	6.3	7.0
1973	6.7	7.5
2. Net income to taxes (exclusive of consumer excise and sales taxes):		
1964	180.4	189.8
1965	163.5	174.2
1966	163.5	171.0
1967	177.0	179.4
1968	171.6	176.0
1969	155.9	160.8
1970	117.5	116.9
1971	128.9	127.0
1972	119.1	118.6
1973	129.3	127.1
3. [illegible] income to labor costs:		
1964	57.4	54.5
1965	64.6	62.6
1966	64.3	63.3
1967	65.5	63.0
1968	67.2	66.5
1969	57.8	57.3
1970	44.7	47.0
1971	45.3	49.2
1972	46.6	51.3
1973	58.3	64.8
4. Net income (adjusted to reflect after-tax interest expense) to total Capital (shareholders' investment plus long-term debt):		
1964	11.5	10.9
1965	12.9	12.5
1966	12.3	12.2
1967	12.3	11.8
1968	11.8	11.8
1969	9.5	9.4
1970	7.7	8.0
1971	7.6	8.2
1972	8.0	8.8
1973	9.2	10.2
5. Taxes (exclusive of consumer excise and sales taxes) to net income before taxes (percent):		
1964	35.7	34.5
1965	38.0	36.5
1966	37.9	36.9
1967	36.1	35.8
1968	36.8	36.2
1969	39.1	38.3
1970	46.0	46.1
1971	43.7	44.1
1972	45.7	45.9
1973	43.6	44.0

Appendix D

CAPITAL EXPENDITURES AND EXPLORATION EXPENSE

Year	Absolute amount (thousands)		Percent of internally generated funds [1]	
	Total company	Domestic	Total company	Domestic
1964	$507,717	$507,717	120	122
1965	604,969	604,969	132	133
1966	640,968	640,968	133	133
1967	703,574	703,574	134	135
1968	642,383	642,383	112	112
1969	719,629	719,629	119	120
1970	717,444	693,490	131	126
1971	543,144	504,883	92	84
1972	689,547	641,696	114	105
1973	691,243	622,061	94	84

[1] "Internally generated funds" include funds provided from operations minus dividends plus exploration expense (geological, geophysical and land expenses plus lease rentals). These are financial book figures.

Appendix E

DIVIDENDS PAID OUT OF EARNINGS

Year	Dividends paid (thousands)		Percent of net earnings	
	Total company	Domestic [1]	Total company	Domestic
1964	$90,798	$86,167	45.8	45.8
1965	103,194	100,098	42.5	42.5
1966	115,731	114,111	45.3	45.3
1967	128,280	123,405	45.0	45.0
1968	151,376	149,862	48.5	48.5
1969	161,778	160,160	55.6	55.6
1970	161,719	161,719	68.2	68.2
1971	161,738	161,738	66.1	66.1
1972	161,751	161,751	62.1	62.1
1973	161,704	161,704	48.6	48.6

[1] No dividends were allocated to foreign losses.

Appendix F

TABLE I.—SHELL OIL CO. ALLOWED FUTURE EXPENDITURES

CASE I.—RETURN ON EQUITY TO 1964-73 AVERAGE—12.2 PERCENT

[In millions of dollars]

Year	Capital expenditures	New financing	New indirect debt	Total direct and indirect expenditures
1974	828	203	200	1,028
1975	899	222	229	1,128
1976	857	113	108	965
1977	908	123	117	1,025
1978	962	144	135	1,097
1979	1,017	150	147	1,164
1980	1,074	167	162	1,241
1981	1,141	172	182	1,323
1982	1,210	184	203	1,413
1983	1,280	192	225	1,505
1984	1,355	204	248	1,603
1985	1,435	218	272	1,707
Total	12,971	2,092	2,228	15,199

TABLE II.—SHELL OIL CO. ALLOWED FUTURE EXPENDITURES

CASE II.—RETURN ON EQUITY 50 PERCENT GREATER THAN 1964-73 AVERAGE—18.3 PERCENT

[In millions of dollars]

Year	Capital expenditures	New financing	New indirect debt	Total direct and indirect expenditures
1974	888	185	210	1,098
1975	1,029	265	240	1,269
1976	1,064	209	156	1,220
1977	1,116	175	146	1,262
1978	1,212	203	174	1,386
1979	1,316	217	193	1,509
1980	1,430	213	218	1,468
1981	1,553	262	244	1,797
1982	1,687	285	280	1,967
1983	1,832	308	313	2,145
1984	1,988	333	350	2,338
1985	1,255	360	390	2,545
Total	17,270	3,045	2,914	20,184

TABLE III.—ADDITIONAL EXPENDITURES PERMITTED BY 50 PERCENT HIGHER RETURN

[In millions of dollars]

Year	Capital expenditures	Indirect commitments	Total
1974	60	10	70
1975	130	11	141
1976	207	48	255
1977	208	29	237
1978	250	39	289
1979	299	46	345
1980	351	56	407
1981	412	62	474
1982	477	77	554
1983	552	88	640
1984	633	102	735
1985	720	118	838
Total	4,299	686	4,985

APPENDIX G

Percent of U.S. petroleum product sales derived from foreign crude

[Percent of imported crude quantities to refined product sales quantities]

Year		Year—Continued	
1964	14.9	1969	11.3
1965	14.0	1970	9.5
1966	13.4	1971	13.9
1967	11.6	1972	16.5
1968	8.2	1973	20.6

APPENDIX H

Earnings/(losses) outside of the United States

[Earnings/(losses) in thousands of dollars]

Year		Year—Continued	
1964	10,143	1969	2,788
1965	7,283	1970	[1] (12,222)
1966	3,666	1971	(20,956)
1967	10,713	1972	(26,341)
1968	3,274	1973	(37,137)

[1] Net: 91 income and 12,313 losses.

SHELL OIL CO.,
Washington, D.C., May 22, 1974.

Mr. ROBERT WILLAN,
Tax Counsel, U.S. Senate Finance Committee,
Washington, D.C.

DEAR MR. WILLAN: This is in reply to your phone inquiry to Mr. T. R. Purcell of Shell concerning the effect of our Chemical Operations on the domestic rate of return on investment. As Mr. G. S. Wolbert, Jr. (Vice President and Associate General Counsel of Shell Oil) pointed out in his presentation before the Senate Committee on Finance on February 13, 1974, Shell considers combined oil and chemical operations as a single line of business because of the substantial amounts of products and services that are interfaced between these activities. For this reason we have not attempted to segregate our chemical operations from domestic oil operations in calculating the rate of return on investment data provided the Senate Committee.

We wish, of course, to cooperate with the Senate Committee in every way possible, and in attempting to respond to your inquiry, we have reviewed our chemical operations for ten years to determine its estimated effect on domestic return on investment. Keeping in mind that some arbitrary allocations were necessary in this statistical exercise, we estimate that the effect of excluding chemical operations from Shell's domestic rate of return on investment is nominal, less than one-half of one percent of the ten-year average (1964–1973).

We hope this information will be of assistance to you.

Very truly yours,

J. CARTER PERKINS.

QUESTION NO. 1

SHELL OIL CO.

[Millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate:										
Net income	$332.7	$260.5	$244.5	$237.2	$291.2	$312.1	$284.8	$255.2	$234.0	$198.2
Net assets [1]	$2,925.0	$2,826.0	$2,743.0	$2,667.6	$2,537.9	$2,067.3	$1,897.9	$1,750.8	$1,612.6	$1,503.2
Rate of return net assets (percent)	11.4	9.2	8.9	8.9	11.5	15.1	15.0	14.6	14.5	13.2
United States:										
Net income	$369.8	$286.8	$265.5	$249.4	$288.4	$308.8	$274.1	$251.5	$226.7	$188.1
Net assets [1]	$2,920.5	$2,824.3	$2,744.4	$2,666.6	$2,537.6	$2,067.0	$1,897.3	$1,751.3	$1,614.0	$1,504.0
Rate of return net assets (percent)	12.6	10.1	9.7	9.4	11.4	14.9	14.4	14.4	14.1	12.5
Foreign:										
Net income	($37.1)	($26.3)	($21.0)	($12.2)	$2.8	$3.3	$10.7	$3.7	$7.3	$10.1
Net assets [1]	$4.5	$1.7	($1.4)	$1.0	$0.3	$0.3	$0.6	($0.5)	($1.4)	($0.8)
Rate of return net assets (percent)	(100+)	(100+)	(100+)	(100+)	100+	100+	100+	100+	100+	100+

[1] Represents shareholders' investment at the beginning of the year.

QUESTION NO. 2

SHELL OIL CO.

[Dollars in millions; profitability rate in percent]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
U.S.	$369.8	$286.8	$265.5	$249.4	$288.4	$308.8	$274.1	$251.5	$226.7	$188.1
Foreign	(37.1)	(26.3)	(21.0)	(12.2)	2.8	3.3	10.7	3.7	7.3	10.1
Total	332.7	260.5	244.5	237.2	291.2	312.1	284.8	255.2	234.0	198.2
Sales:										
U.S.	$4,932.2	$4,108.3	$3,924.9	$3,620.8	$3,556.7	$3,325.9	$3,059.0	$2,801.3	$2,536.9	$2,303.5
Rate of profitability	7.5	7.0	6.8	6.9	8.1	9.3	9.0	9.0	8.9	8.2
Foreign				$0.1	$26.8	$26.6	$29.2	$29.7	$36.2	$36.3
Rate of profitability					10.4	12.3	36.7	12.3	20.1	27.9
Total	$4,932.2	$4,108.3	$3,924.9	$3,620.9	$3,583.5	$3,352.5	$3,088.2	$2,831.0	$2,573.1	$2,339.8
Rate of profitability	6.7	6.3	6.2	6.6	8.1	9.3	9.2	9.0	9.1	8.5
Taxes (other than excise):										
U.S.[1]	$290.9	$241.7	$209.0	$213.4	$179.3	$175.5	$152.8	$147.1	$130.2	$99.1
Rate of profitability	56.0	54.3	56.0	53.9	61.7	63.8	64.2	63.1	63.5	65.5
Foreign	($33.7)	($22.9)	($19.3)	($11.5)	$7.5	$6.4	$8.1	$9.0	$13.0	$10.8
Rate of profitability	52.4	53.5	52.1	51.5	27.2	34.0	56.9	29.1	36.0	48.3
Total	$257.2	$218.8	$189.7	$201.9	$186.8	$181.9	$160.9	$156.1	$143.2	$109.9
Rate of profitability	56.4	54.4	56.3	54.0	60.9	63.2	63.9	62.0	62.0	64.3
Employed capital:										
U.S.	$3,946.4	$3,662.2	$3,580.2	$3,378.1	$3,250.9	$2,785.8	$2,450.0	$2,168.4	$1,880.8	$1,777.4
Rate of profitability	10.2	8.8	8.2	8.0	9.4	11.8	11.8	12.2	12.5	10.9
Foreign	$4.4	$1.0	($1.4)	$1.0	$0.3	$0.3	$1.0	($2.1)	($0.7)	($1.0)
Rate of profitability	(100+)	(100+)	(100+)	(100+)	100+	100+	100+	100+	100+	100+
Total	$3,950.5	$3,662.8	$3,578.8	$3,379.1	$3.251.2	$2,786.1	$2,451.[illegible]	$2,166.3	$1,880.1	$1,776.4
Rate of profitability	9.2	8.0	7.6	7.7	9.5	11.8	12.[illegible]	12.3	12.9	11.5

[1] U.S. taxes exclude that portion of U.S. taxes incurred in foreign operations for the years 1970-73. These amounts are shown as foreign taxes.

Note: Employed capital shown is beginning of the year balance of shareholders' investment and long-term debt. Net income has been adjusted for the after-tax effect of interest on indebtedness in calculating rate of profitability for employed capital.

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QUESTION NO. 3

SHELL OIL CO.

[Dollar amounts in millions

Year	Capital expenditures and exploration expenses Col. 1	Net income Col. 2	Exploration expense Col. 3	Adjusted earnings (2+3) Col. 4	Capital recovery Col. 5	Adjusted earnings plus capital recovery (4+5) Col. 6	Ratios: Capital expenditures and exploration expenses as a percentage of — Net income (1÷2) Col. 7	Adjusted earnings (1÷4) Col. 8	Adjusted earnings plus capital recovery (1÷6) Col. 9
Domestic:									
1964	$507.7	$188.1	$75.8	$263.9	$219.0	$482.9	270	192	105
1965	605.0	226.7	74.3	301.0	229.2	530.2	257	201	114
1966	641.0	251.5	77.0	328.5	251.0	579.5	255	195	111
1967	703.6	274.1	84.7	358.8	277.3	636.1	257	196	111
1968	642.4	308.8	88.3	397.1	317.9	715.0	208	162	90
1969	719.6	288.4	90.9	379.3	351.8	731.1	250	190	98
1970	693.5	249.4	73.1	322.5	355.3	677.8	278	215	102
1971	504.9	265.5	71.3	336.8	393.7	730.5	190	150	69
1972	641.7	286.8	75.8	362.6	373.0	735.6	224	177	87
1973	622.1	369.8	97.5	452.3	408.5	860.8	168	138	72
10 yr	6,281.5	2,709.1	793.7	3,502.8	3,176.7	6,679.5	232	179	94
Foreign:									
1964		10.1		10.1		10.1			
1965		7.3		7.3		7.3			
1966		3.7		3.7		3.7			
1967		10.7		10.7		10.7			
1968		3.3		3.3		3.3			
1969		2.8		2.8		2.8			
1970	23.9	(12.2	9.6	(2.6)	14.1	11.5			208
1971	38.3	(21.0)	21.3	.3	16.8	17.1		1000+	224
1972	47.9	(26.3)	22.8	(3.5)	23.8	20.3			236
1973	69.2	(37.1)	28.2	(8.9)	33.2	24.3			285
10 yr	179.3	(58.7)	81.9	23.2	87.9	111.1		700+	161

Note: Cash flow has to cover not only capital expenditures but changes in working capital requirements and dividends to shareholders. Over the 10-yr period 1964–73 Shell increased long-term borrowings about $748,000,000 and equity financed an additional $300,000,000.

QUESTION NO. 6

SHELL OIL COMPANY—U.S. OPERATIONS CAPITAL REQUIREMENTS WITH RETURN ON INVESTMENT AT 1964–73 AVERAGE

[In millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Investment—Jan. 1	51,419	3,095	3,273	3,461	3,659	3,869	4,091	4,326	4,574	4,836	5,113	5,406	5,716
Rate of return (percent)	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Net income	6,273	378	399	422	446	472	499	528	558	590	624	660	697
Plant exhaustion 11 percent net investment	8,516	486	526	558	609	641	679	719	762	807	855	905	959
Less 53 percent in dividends	3,324	200	211	224	236	250	264	280	296	313	331	350	369
Funds generated	11,465	664	714	766	819	863	914	967	1,024	1,084	1,148	1,215	1,287
Capital requirements	12,971	828	899	857	908	962	1,017	1,074	1,141	1,210	1,280	1,355	1,440
Borrowings	2,092	203	222	113	123	144	150	167	172	184	192	204	218
Repayment[1]—4 percent year on new borrowing:													
1974							8	8	8	8	8	8	8
1975								9	9	9	9	9	9
1976									5	4	5	4	5
1977										5	5	5	5
1978											6	6	6
1979												6	6
1980													7
Total repayments	682	37	28	33	39	55	36	87	67	72	74	76	78
Total debt Dec. 31	21,647	1,187	1,381	1,461	1,545	1,634	1,748	1,828	1,933	2,045	2,163	2,291	2,431
Debt/investment ratio Dec. 31 (percent)	40	36	40	40	40	40	40	40	40	40	40	40	40

[1] Beginning in 5th year from date of borrowing.

QUESTION NO. 6—Continued

SHELL OIL CO.

[Dollar amounts in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Investment Jan 1	$60,755	$3,095	$3,361	$3,650	$3,964	$4,295	$4,664	$5,065	$5,501	$5,974	$6,488	$7,046	$7,652
Rate of return (percent)	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
Net income	$11,118	$566	$615	$668	$725	$786	$853	$927	$1,007	$1,093	$1,187	$1,289	1,400
Plant exhaustion 11 percent net	9,970	486	534	593	652	708	770	835	908	986	1,071	1,163	1,263
53 percent dividends	5,892	300	326	354	384	417	452	491	534	579	629	683	742
Funds generated	15,196	752	823	907	993	1,077	1,171	1,272	1,381	1,500	1,629	1,769	1,921
Capital expenditure	17,270	888	1,029	1,064	1,116	1,212	1,316	1,430	1,553	1,687	1,832	1,988	2,155
Borrowings	3,045	185	265	209	175	203	217	243	262	285	308	333	360
Repayment—4 percent per year beginning in 5th year from date of borrowing:													
1974 borrowing							7	7	7	7	7	7	7
1975 borrowing								11	11	11	11	11	11
1976 borrowing									8	8	8	8	8
1977 borrowing										7	7	7	7
1978 borrowing											8	8	8
1979 borrowing												9	9
1980 borrowing													9
Total repayments	729	36	28	34	28	65	56	68	72	79	83	88	92
Total debt	26,208	1,170	1,407	1,582	1,729	1,867	2,028	2,203	2,393	2,589	2,824	3,069	3,337
Debt/investment ratio Dec. 31 (percent)	40	35	39	40	40	40	40	40	40	40	40	40	40

Note: Shell Co.—U.S. operations capital requirements with return on investment at 1½ times 1964–73 average.

PHILLIPS PETROLEUM CO.,
April 10, 1974.

Mr. ROBERT M. WILLAN,
Tax Counsel, Committee on Finance,
Senate Office Building,
Washington, D.C.

DEAR SIR: In response to your telephone call of March 29, enclosed are the Company's responses to questions 1, 2, 3 and 9 in the format transmitted by your letter of March 19 to Mr. Glenn Cox, Vice President. This information is being furnished with the understanding that it is confidential and that it will only be used in the aggregate with similar information furnished by other companies.

We respectfully request that the responses to these same questions transmitted by my letter of March 27 be destroyed because a few minor corrections were made in the data when being conformed to the new format.

Very truly yours,

H. B. STEAD, *Comptroller.*

QUESTION NO. 1

PHILLIPS PETROLEUM CO.

[Dollars in thousands]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total corporate (petroleum operations):										
Net income	$152,014	$125,331	$122,377	$123,686	$131,419	$138,236	$155,128	$133,646	$106,761	$101,436
Net assets (stockholder's equity)	$1,308,866	$1,295,409	$1,258,895	$1,245,286	$1,250,063	$1,221,596	$1,134,125	$1,053,865	$1,014,255	$998,477
Rate of return net assets (percent)	11.6	9.7	9.7	9.9	10.5	11.3	13.7	12.7	10.5	10.2
U.S. (petroleum operations):										
Net income	$95,528	$107,699	$97,968	$109,999	$118,899	$127,908	$140,899	$128,319	$104,887	$92,063
Net assets (stockholder's equity)	$910,674	$955,231	$962,539	$981,532	$1,008,807	$1,012,180	$954,081	$885,473	$861,720	$863,898
Rate of return net assets (percent)	10.5	11.3	10.2	11.2	11.8	12.6	14.8	14.5	12.2	10.7
Foreign (petroleum operations):										
Net income	$56,486	$17,632	$24,409	$13,687	$12,520	$10,328	$14,229	$5,327	$1,874	$9,373
Net assets (stockholder's equity)	$398,192	$340,178	$296,356	$263,754	$241,256	$209,416	$180,044	$168,392	$152,535	$134,579
Rate of return net assets (percent)	14.2	5.2	8.2	5.2	5.2	4.9	7.9	3.2	1.2	7.0

Note: The net assets (stockholder's equity) used in computing the rates of return were obtained by allocating (as requested) the company's total stockholder's equity among its operating segments on the basis of capital employed. This is a very arbitrary method which, in Phillips' case, tends to produce an unreasonably low investment for domestic petroleum operations and, consequently, a misleading rate of return. This is because such method, in effect, allocate long-term debt and other liabilities to the operating segments even though a particular segment may not have benefited from any such liabilities. For instance, the domestic petroleum operations were mature and contributed substantially to total stockholder's investment many years prior to the company's expansion into petrochemicals and foreign operations. These latter activities caused a substantial rise in the company's long-term debt, a major portion of which under the allocation method described above, was attributed to petroleum operations. There is no meaningful or correct method for allocation of stockholder's equity among segments. It is our opinion that rates of return for segments of a business can be properly computed only by use of capital employed. Financial statements presented in reports to stockholders include the accounts of Phillips Petroleum Co. and its consolidated subsidiaries, with no segregation being made between domestic petroleum operations, other domestic operations and foreign operations. The figures used herein were derived from the same accounts. Information furnished the FTC prior to 1973 year end was on the same basis as the annual report to stockholders. At 1973 year end, the FTC report was prepared on the same basis of domestic operations as defined by FTC form MG.

QUESTION NO. 2

PHILLIPS PETROLEUM CO.

[Dollars in thousands; profitability rate in percent]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income:										
U.S. petroleum operations	$95,528	$107,699	$97,968	$109,999	$118,899	$127,908	$104,899	$128,319	$104,887	$92,063
Foreign petroleum operations	56,486	17,632	24,409	13,687	12,520	10,328	14,229	5,327	1,874	9,373
Total	152,014	125,331	122,377	123,686	131,419	138,236	155,128	133,646	106,761	101,436
Sales:										
U.S. petroleum operations	$1,860,870	$1,727,834	$1,641,477	$1,618,169	$1,587,891	$1,558,963	$1,534,362	$1,322,816	$1,144,075	$1,075,448
Rate of profitability [1]	5.1	6.1	5.9	6.6	7.3	8.0	8.9	9.5	9.0	8.3
Foreign petroleum operations	$409,124	$230,130	$238,441	$154,240	$148,242	$134,759	$111,968	$86,826	$68,660	$47,033
Rate of profitability [1]	9.0	1.5	4.3	3.1	2.2	2.6	9.1	4.7	(1.4)	13.9
Total	$2,269,994	$1,957,964	$1,879,918	$1,772,409	$1,736,133	$1,693,722	$1,646,330	$1,409,642	$1,212,735	$1,122,481
Rate of profitability [1]	5.8	5.6	5.7	6.3	6.9	7.6	8.9	9.2	8.4	8.6
Taxes (other than excise): [1, 2]										
U.S. petroleum operations	$97,489	$113,766	$107,552	$112,061	$98,774	$108,238	$115,641	$97,074	$66,146	$61,453
Rate of profitability	49.0	48.3	47.2	49.0	54.2	53.6	54.3	56.4	60.8	59.4
Foreign petroleum operations	$24,152	$2,350	$3,040	($2,794)	($1,772)	($7,480)	($3,184)	$1,031	($4,246)	($8,879)
Rate of profitability	65.0	119.5	91.3				179.1	97.3		
Total	$121,641	$116,116	$110,592	$109,267	$97,002	$100,758	$112,457	$98,105	$61,900	$52,574
Rate of profitability	52.8	49.2	49.5	51.2	55.8	56.5	57.0	57.1	62.5	65.1
Employed capital: [3]										
U.S. petroleum operations	$1,294,740	$1,381,538	$1,378,078	$1,411,693	$1,446,972	$1,444,292	$1,403,630	$1,219,135	$1,063,149	$1,024,725
Rate of profitability	7.4	7.8	7.1	7.8	8.2	8.9	10.0	10.5	9.9	9.0
Foreign petroleum operations	$565,292	$491,790	$425,007	$379,025	$346,705	$298,445	$264,801	$231,192	$188,596	$159,664
Rate of profitability	10.0	3.6	5.7	3.6	3.6	3.5	5.4	2.3	1.0	5.9
Total	$1,860,032	$1,873,328	$1,803,085	$1,790,718	$1,793,677	$1,742,737	$1,668,431	$1,450,327	$1,251,745	$1,184,389
Rate of profitability	8.2	6.7	6.8	6.9	7.3	7.9	9.3	9.2	8.5	8.6

[1] The net income used for this calculation excludes the company's portion of the earnings of companies accounted for by the equity method since the sales and taxes of such companies are not included in the company's financial statements.

[2] We assume excise taxes refer to those taxes collected on the sale of petroleum products and paid to taxing agencies.

[3] Comprises stockholder's equity plus long-term debt. Allocation was made to operations on the basis of capital investment in the same manner as described in the response to question 1. The comments regarding the correctness of such an allocation method are also relevant here.

QUESTIONS NO. 3 AND NO. 9

PHILLIPS PETROLEUM CO.

[Dollars in thousands]

Year	Capital expenditures, investments, and exploration expenses	Net income	Exploration expenses (net of tax benefit)	Adjusted earnings (2+3)	Capital recovery [1]	Adjusted earnings plus capital recovery (4+5)	Capital expenditures, investments and exploration expenses as percent of— Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings plus capital recovery (1÷6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic petroleum operations:									
1973	$166,265	$95,528	$11,239	$106,827	$135,039	$217,867	174.0	155.6	68.5
1972	175,821	107,699	7,804	115,503	130,139	245,642	116.8	108.9	51.2
1971	100,339	97,968	7,793	105,761	117,378	223,139	102.4	91.9	45.0
1970	148,973	111,029	8,957	118,986	120,591	239,577	135.4	125.2	62.2
1969	195,194	113,899	8,142	127,041	138,723	255,764	164.2	153.6	73.4
1968	173,811	127,908	8,510	136,418	119,571	255,989	135.9	127.4	67.9
1967	165,371	140,899	7,726	148,625	116,039	264,664	119.5	113.3	63.6
1966	427,027	128,319	7,265	135,584	104,344	239,928	332.8	315.0	178.0
1965	166,173	105,887	7,529	112,416	103,491	215,907	158.4	147.8	77.0
1964	158,658	92,063	8,609	100,672	91,645	192,317	172.3	157.6	82.5
10 yr.	1,830,606	1,124,169	83,664	1,207,833	1,177,961	2,385,794	162.8	151.6	76.7
Foreign petroleum operations:									
1973	176,259	56,486	6,784	63,270	59,852	114,122	312.0	278.6	154.4
1972	128,991	17,632	6,293	23,925	46,034	69,959	731.1	538.8	184.3
1971	111,836	24,409	4,843	29,252	49,744	78,996	458.2	382.3	141.6
1970	53,691	13,687	3,271	16,958	45,757	62,715	392.3	316.6	85.6
1969	104,832	12,520	3,974	16,494	36,989	53,483	837.4	635.6	196.0
1968	68,393	10,328	4,038	14,366	41,254	55,620	662.2	476.1	123.0
1967	52,815	14,229	6,477	20,706	34,935	55,641	371.2	255.1	94.9
1966	97,588	5,327	5,216	10,543	19,296	29,839	1,832.0	925.6	327.0
1965	78,721	1,874	5,584	7,458	19,430	26,888	4,200.7	1,055.5	292.8
1964	34,193	9,373	3,098	12,471	12,993	25,464	364.8	274.2	134.3
10 yr.	907,239	165,865	49,578	215,443	357,284	572,727	547.0	421.1	158.4

[1] Charges for depreciation, depletion, amortization, and retirements.

QUESTION NO. 4

PHILLIPS PETROLEUM CO.

Year	Dividends paid out of domestic petroleum earnings — Amount	Percent
1973	$40,711,000	42.6
1972	70,664,000	65.8
1971	71,549,000	73.1
1970	87,753,000	82.1
1969	83,479,000	71.6
1968	84,642,000	67.7
1967	67,710,000	49.4
1966	60,242,000	48.5
1965	55,033,000	53.7
1964	52,833,000	58.9

Note: Dividends were assumed to be paid out of domestic petroleum earnings in the same ratio as such earnings are to total consolidated earnings.

QUESTION NO. 5

The Company's earnings for the fourth quarter of 1973 amounted to $86,700,000, an increase of $48,600,000 over the comparable 1972 quarter. Of this increase, foreign earnings accounted for 81% as the result of higher prices and increased production of foreign crude oil (particularly in Nigeria), and improvements in foreign manufacturing and sales and tanker operations.

The 19% portion of the earnings increase contributed by domestic operations is reflected in activities other than the petroleum segment, and can be attributed primarily to improved prices and higher sales volumes of chemicals and fibers. The domestic petroleum operations earnings declined 6.7%. This was caused by increased costs, particularly crude oil, and lower volume of petroleum products sold. Under Federal price controls, product prices could be increased to recover only the higher crude oil costs while increases in other costs (labor, transportation, marketing, overhead) had to be absorbed. In addition, because the cost of crude oil escalated so rapidly during the fourth quarter it was impossible to recover currently through product prices the higher crude costs as they occurred. Thus, a substantial lag developed between their occurrence and recovery which has carried over into 1974.

QUESTION NO. 6

The attached estimates of domestic capital requirements for the period 1974 to 1985 were prepared in accordance with the Senate Finance Committee assumptions that the Company would continue to achieve the past ten year historical return of 11.7 percent and 17.55 percent (one and one-half times the historical return) on stockholders' equity. The guidelines utilized also assumed that 25 percent of capital requirements could be borrowed directly whereas 13 percent would be off-balance sheet financing.

The annual capital expenditure program derived by assuming continuance of the historical return on stockholders' equity is substantially below the Company's anticipated 1974 through 1978 program. The expenditure program derived by utilizing one and one-half times the historical return more closely approximates the Company's anticipated 1974 through 1978 expenditures. Although assumed, the Company does not believe that it would be in the best interest of its stockholders to finance 13 percent of capital requirements on an off-balance sheet basis. Off balance sheet financing is an expensive financing vehicle.

The following balance sheet debt ratios were computed using the stated return and financing guidelines:

[In percent]

	Average debt to equity ratio 1974-85	Range of debt to equity ratios 1974-85	Average debt to total capitalization 1974-85	Range of debt to total capitalization ratios 1974-85
Historical return of 11.7 percent on stockholders' equity	58.3	44.5-64.6	36.7	30.8-39.3
1½ times return of 17.55 percent on stockholders' equity	56.3	44.4-61.1	35.9	30.7-37.9

The balance sheet debt ratios will materially exceed the historical norm of the petroleum industry of debt to equity or debt to total capitalization ratios. The Company does not believe that such debt ratios could be maintained over a prolonged period of time without materially restricting the Company's capacity to incur additional debt should annual capital requirements increase over the capital program computed under the guidelines.

QUESTION NO.

PHILLIPS PETROLEUM CO. ESTIMATE OF U.S. OPERATIONS CAPITAL REQUIREMENTS ASSUMING CONTINUANCE OF THE 1964-73 AVERAGE RETURN ON STOCKHOLDERS' EQUITY (CAPITAL ESTIMATES BASED ON SENATE FINANCE COMMITTEE GUIDELINES)

[Dollars in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Stockholders equity as of Jan 1		$866	917	971	1,028	1,088	1,152	1,220	1,292	1,368	1,448	1,533	1,623
Rate of return (percent)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)
Net income	$1,696	101	107	114	120	127	135	143	151	160	169	179	190
Plant exhaustion 10 percent net	1,451	87	92	97	103	109	115	122	129	137	145	153	162
50 percent dividends	844	50	53	57	60	63	67	71	75	[illegible]	84	89	95
Funds generated	2,303	138	146	154	163	173	183	194	205	217	230	243	257
Capital expenditure	3,715	223	235	248	253	279	295	313	331	350	371	392	415
Borrowings	931	56	59	62	66	70	74	78	83	88	93	98	104
Off balance sheet financing	481	29	30	32	34	36	38	41	43	45	48	51	54
Repayment - 10 percent per year beginning in 5th year from date of borrowing:													
1974 borrowing							5.6	5.6	5.6	5.6	5.6	5.6	5.6
1975 borrowing								5.9	5.9	5.9	5.9	5.9	5.9
1976 borrowing									6.2	6.2	6.2	6.2	6.2
1977 borrowing										6.6	6.6	6.6	6.6
1978 borrowing											7.0	7.0	7.0
1979 borrowing												7.4	7.4
1980 borrowing													7.8
Total repayments							5.6	11.5	17.7	24.3	31.3	38.7	46.5
Total debt [1]		408	467	529	595	665	733	799	864	928	990	1,049	1,106
Debt/stockholders equity as of Dec. 31		44.5	48.1	51.5	54.7	57.7	60.1	61.8	63.2	64.1	64.6	64.6	64.4
Debt/total capitalization as of Dec. 31		30.8	32.5	34.0	35.4	36.6	37.5	38.2	38.7	39.1	39.2	39.3	39.2

ASSUMING 1½ TIMES THE 1964-73 AVERAGE RETURN ON STOCKHOLDERS' EQUITY

Stockholders' equity as of Jan. 1		$866	$942	$1,025	$1,115	$1,213	$1,320	$1,436	$1,562	$1,699	$1,848	$2,010	$2,187
Rate of return (percent)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)	(17.55)
Net income	$3,023	152	165	180	196	213	232	252	274	298	324	353	384
Plant exhaustion 10 percent net	1,724	87	94	103	112	121	132	144	156	170	185	201	219
50 percent dividends	1,510	76	82	90	98	106	116	126	137	149	162	176	192
Funds generated	3,237	163	177	193	210	228	248	270	293	319	347	378	411
Capital expenditure	5,222	263	285	311	339	368	400	435	473	515	560	610	663
Borrowings	1,307	66	71	78	85	92	100	109	118	129	140	153	166
Off balance sheet financing	678	34	37	40	44	48	52	56	62	67	73	79	86
Repayment 10 percent per year beginning in 5th year from date of borrowing:													
1974 borrowing							6.6	6.6	6.6	6.6	6.6	6.6	6.6
1975 borrowing								7.1	7.1	7.1	7.1	7.1	7.1
1976 borrowing									7.8	7.8	7.8	7.8	7.8
1977 borrowing										8.5	8.5	8.5	8.5
1978 borrowing											9.2	9.2	9.2
1979 borrowing												10.0	10.0
1980 borrowing													10.9
Total repayments							6.6	13.7	21.5	30.0	39.2	49.2	60.1
Total debt [1]		418	489	557	652	714	837	932	1,028	1,127	1,228	1,332	1,438
Debt/stockholders' equity as of Dec. 31		44.4	47.7	50.9	53.8	56.4	58.3	59.7	60.5	61.0	61.1	60.9	60.4
Debt/total capitalization as of Dec. 31		30.7	32.3	33.7	35.0	36.0	36.8	37.4	37.7	37.9	37.9	37.9	37.7

[1] Year-end debt total include $352,000,000 existing debt as of Jan. 1, 1974.

QUESTION NO. 7

Year	Percent of total refinery raw material runs represented by foreign crude oil	Percent of domestic petroleum product sales represented by current refinery production[1]
1973	15.9	85.4
1972	6.3	77.9
1971	4.7	79.2
1970	2.8	75.6
1969	1.9	75.7
1968	1.9	76.2
1967	4.1	75.1
1966	2.7	NA
1965		NA
1964		NA

[1] The remaining percentage of petroleum product sales was supplied primarily from purchased products.

QUESTION NO. 8

As is typical, Phillips produces its foreign source oil by means of U.S. companies with branch offices in the host countries, therefore, the contractual relationship with foreign subsidiaries involving a price problem is not a pertinent question. However, the pricing problem is material where the oil and/or gas produced is used by Phillips internally and not sold to third party buyers. This price impinges upon depletion and foreign tax credits available in calculating U.S. taxes on foreign source oil and gas income. As a practical matter, "shifting" U.S. profits to host countries or elsewhere, thus improving the company's U.S. tax position vis-a-vis depletion and foreign tax credits is most unlikely. These activities are closely scrutinized by the O.I.O. Division of the Internal Revenue Service and it has a complete answer to any such attempt by applying I.R.C. Sec. 482. With this provision, all adverse threats to U.S. tax revenues can be met and no further implementation in this area is indicated.

QUESTION NO. 10

The Company's rates of return on stockholders' investment for domestic petroleum operations for years 1972 and 1973 are presented below, with and without the effect of the percentage depletion allowance:

	Return--	
	With percentage depletion	Without percentage depletion
1973	10.5	7.6
1972	11.3	8.7

For each of the two years, the loss of the tax benefit from the percentage depletion allowance would have lowered the rate of return by about one-fourth. This should be no indication, however, of the ultimate effect on future earnings (and rates of return) by eliminating the allowance. Too many other intangible factors are present.

If the lost benefits could not be recovered through higher product prices because of a regulated economy, the oil industry would have the alternative choices of either (a) restricting such activities to a level compatible with reduced cash flows, or (b) possibly resorting to outside financing for the tremendous sums needed to find and develop oil and gas reserves to meet an ever-increasing demand for energy products. This latter course is necessarily subject to limitations, such as the borrower's credit rating and availability of funds. However, as an indication of the petroleum industry's heavy reliance on borrowed funds, it might be noted that the debt-equity ratio for the group of companies included in the Chase Manhattan Bank's annual analysis of the industry increased from 12.7% in 1964 to 22.6% in 1972.

SUN OIL CO.

SUN OIL CO.,
St. Davids, Pa., February 14, 1974.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: In response to the points mentioned in the Senate Finance Committee's release of January 28, 1974 and to the subsequent Finance Committee questionnaire to all witnesses, Sun Oil Company is pleased to submit the attached answers. Answers to point 5 of the January 28 release and to question 6 of the subsequent questionnaire to all witnesses are now being prepared and will be forwarded shortly.

Sincerely yours,

ROBERT G. DUNLOP.

Question No. 1. What was the overall rate of return which your company realized on invested and borrowed capital devoted to exploration, production, manufacturing, transportation and marketing of petroleum products during the period 1964 to 1973, inclusive?

Answer:

Return on stockholders' equity plus Long Term Debt	*Percent*
1968	8.8
1969	7.7
1970	6.5
1971	7.2
1972	6.8
1973	9.1

Information on a comparable basis is not readily available for the years 1964–1967 because of the Sun Sunray DX merger.

Question No. 2. What is the rate of profitability in relation to sales during the period 1964 to 1973, inclusive?

Answer:

Ratio of net income to sales (petroleum only)	*Percent*
1968	10.9
1969	9.7
1970	8.2
1971	8.7
1972	8.2
1973	10.2

Information on a comparable basis is not readily available for the years 1964–1967 because of the Sun/Sunray DX merger.

Question No. 3. What was the rate of exploration expense and capital expense in the U.S. during the same period, 1964 to 1973?

Answer. Capital expenditures and intangible development costs in the U.S. (excluding Sun Ship) were as follows (in thousands of dollars):

	Capital expenditures	IDC	Total
1968	219,901	44,292	264,193
1969	191,692	38,049	229,741
1970	282,492	30,841	313,333
1971	204,988	35,518	240,506
1972	211,219	33,331	244,550
1973	180,702	33,238	213,940

Question No. 6. What percent of your total United States sales is based on imported petroleum products during the period 1964 to 1973?

Answer. The estimated portion of Sun's total United States sales of refined products derived from imported petroleum (crude petroleum, unfinished oils, and refined products) was as follows: 11% in 1968, 14% in 1969, 13% in 1970, 14% in 1971, 24% in 1972, and 31% in 1973.

Question No. 7. Provide information as to the amounts of oil investments outside the United States during the period 1964 to 1973 which were derived from profits generated in the United States.

Answer. Capital expenditures and intangible development costs outside the United States derived from profits generated in the United States were as follows:

1968	$59,000,000
1969	70,000,000
1970	47,000,000
1971	113,000,000
1972	55,000,000
1973	0

(Note: based on the availability of foreign income and foreign borrowings to offset foreign capital expenditures and intangible development costs.)

Question No. (1). What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

Answer. Return on stockholders' equity:

	Percent return
1968	15.7
1969	12.4
1970	11.6
1971	12.6
1972	12.5
1973	12.1

Question No. (1a). Where applicable, please give the source of this information.

Answer. Company records.

Question No. (1b). Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rates of Return in Selected Manufacturing Industries? If so, please explain.

Answer. These returns are prepared using the same information as was used in the annual stockholder reports and FTC reports, however, the returns differ in that these returns are for domestic petroleum operations only. Annual stockholder reports and FTC reports are on a consolidated basis (domestic, foreign and nonpetroleum operations).

Question No. (1c). How does the rate of return on U.S. petroleum investment, as described, compare with your rate of return on other investments?

Answer. Overall return on stockholders' equity for foreign petroleum operations:

	Percent return
1968	(1)
1969	(1)
1970	1.0
1971	3.4
1972	3.2
1973	12.4

[1] Net loss.

Information on a comparable basis is not readily available for the years 1964–1967 because of the Sun/Sunray DX merger.

Question. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investment, including borrowed capital?

[In percent]

	Net income to sales	
	Domestic	Total
1968	13.6	10.9
1969	11.2	9.7
1970	8.9	8.2
1971	8.6	8.7
1972	8.3	8.2
1973	7.7	10.2

[In percent]

	Net income to taxes	
	Domestic	Total
1968	165.3	106.6
1969	138.2	88.8
1970	107.1	75.5
1971	110.5	82.4
1972	109.6	80.5
1973	97.9	84.9

[In percent]

	Net income to labor costs	
	Domestic	Total
1968	77.6	60.5
1969	61.5	51.9
1970	47.8	44.2
1971	46.1	46.5
1972	43.7	43.8
1973	47.8	64.1

[In percent]

	Net income to total investment[1]	
	Domestic	Total
1968	12.3	8.3
1969	9.8	7.2
1970	7.8	6.0
1971	8.1	6.6
1972	7.6	6.2
1973	7.1	8.2

[1] Defined as total assets less current liabilities.

Question. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year, and as a percentage of the sum of (a) earnings (after taxes and dividends) and (b) exploration items which were expense? Please indicate whether this table is based on income for tax purposes or for financial book purposes.

[Dollar amounts in thousands]

	Exploration expense (intangible development cost)	Capital investment	Percent of earnings and exploration expense
1968	$54,898	$267,853	198.0
1969	47,304	252,431	230.7
1970	39,247	325,342	339.9
1971	50,564	321,895	278.7
1972	52,145	267,886	238.4
1973	47,157	277,965	161.0

Note: Table is based on income for financial book purposes.

Question. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

Answer:

	Dividends paid (thousands)	Dividends as a percent of U.S. petroleum earnings
1968	$55,476	30.1
1969	68,528	43.8
1970	69,916	50.3
1971	70,539	46.5
1972	69,604	45.0
1973	70,524	30.7

Question No. 5. Fourth Quarter—1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin (differentiate between company controlled retailers and independent retailers)?

Answer. Pre-tax financial operating income (income before nonoperating revenues and income taxes) of Sun's U.S. operation (excluding Puerto Rico) decreased in the fourth quarter of 1973 versus the fourth quarter of 1972. While Sun realized significantly higher prices for crude oil and condensate and natural gas, Sun's U.S. consolidated income decreased as a result of offsetting cost increases to the marketing and refining operation which were not fully passed on in refined product prices.

For your information, during the fourth quarter of 1973, Sun had not increased its refined product prices by the full amount of increased costs of foreign and domestic crude oil and purchased finished products to its refining operation. Additionally, Sun did not increase its refined product prices to recover any of its other refining and marketing costs (e.g., labor, utilities, other operating expenses and fixed costs including interest expense, depreciation, etc.).

In regard to the more specific matter of retail prices, the following points are relevant. Due to the presence of soft markets, fourth quarter 1972 gasoline prices were approximately 1.27¢/gallon below the August 1971 base prices of the Economic Stabilization Program. As a result of increased costs of crude oil, the average tankwagon price in the fourth quarter of 1973 was approximately 2.7¢/gallon greater than that of the fourth quarter of 1972. Thus, the elimination of the 1.27¢ subnormalcy accounted for approximately one-third of the total average price increase of 3.97¢/gallon. (1.27¢ + 2.70¢) However, notwithstanding the absence of soft markets, since Sun had not recovered the full amount of increased costs to its refining operation, it did not experience an increase in profit in its dealer tankwagon price. Regarding growth of sales, Sun's U.S. refined product sales volume decreased slightly in the fourth quarter of 1973 versus 1972.

Question No. 7. What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?

Answer. The estimated portion of Sun's total United States sales of refined products derived from imported petroleum (crude petroleum, unfinished oils, and refined products) was as follows: 11% in 1968, 14% in 1969, 13% in 1970, 14% in 1971, 24% in 1972 and 31% in 1973.

The estimated portion of Sun's total United States sales of refined products derived from imported crude petroleum (only) was as follows: 8% in 1968, 10% in 1969, 9% in 1970, 8% in 1971, 14% in 1972 and 20% in 1973.

Question No. 4.—In the January 28, 1974 release asks, "How is the price determined with respect to imports of petroleum products into the United States from a foreign subsidiary?"

Question 8 of the subsequent Senate Finance Committee questionnaire requests a description of the typical situations in which Sun Oil Company has contractual relationships with a foreign subsidiary involving a pricing problem. It continues with an inquiry as to the extent to which it is believed possible for a United States company complying with the present tax regulations governing such relationships to shift U.S. profits to the foreign subsidiary. Question 8 concludes with a query on whether any alternative approach for regulation of such transactions is recommended to prevent the shifting of U.S. profits to foreign subsidiaries.

Answer. Sun Oil Company and its U.S.-based domestic affiliates import petroleum products into the United States from affiliates operating in Puerto Rico and Venezuela. The principal products imported are #2 fuel oil, gas oil, lubricating oil, naphtha, and kerosene.

U.S. price controls are not applicable to the products sold by the Venezuelan affiliate for import into the U.S. These products are priced at arms' length, fair market prices, pursuant to Section 482 of the Internal Revenue Code.

In January, 1974 Federal Energy Office price controls were extended to Puerto Rico. The interrelation between these controls, which are applied on a system-wide basis regardless of separate corporate entities and which restrict prices below market levels, and Section 482, which recognizes the existence of separate corporate entities and which is premised on a free market, is not entirely clear. Sun Oil currently is studying the problem. Imports from Sun's Puerto Rican affiliate to mainland affiliates may have to be transferred at the same controlled prices applicable to sales to unrelated third parties in the U.S.

The other typical situation in which Sun Oil or a Sun Oil affiliate in the U.S. has a pricing relationship with a foreign-based affiliate is the purchase of crude oil from the foreign-based company and its importation into the U.S. or into Puerto Rico. In all cases, the crude oil is sold and purchased at arm's length, fair market prices, pursuant to Section 482. The crudes involved are produced and sold by Sun Oil affiliates operating in Canada, Venezuela, and Iran.

Section 482 and the regulations thereunder provide that inter-company transfers must be at arm's length prices, which are defined as "the price that an unrelated party would have paid under the same circumstances for the property involved in the controlled sale". (Regulations, section 1.482-2(e)(1)(i)) The Internal Revenue Service has been vigilant and vigorous in its enforcement of this provision. Because the section 482 regulations employ an arm's length standard and have as their purpose and effect "to place a controlled taxpayer on a tax parity with an uncontrolled taxpayer, by determining, according to the standard of an uncontrolled taxpayer, the true taxable income from the property and business of a controlled taxpayer. . . ." (Regulations, section 1.482-1(b)(1))

It is not possible for a U.S. company complying with the regulations to shift U.S. profits to a foreign subsidiary.

Section 482 and its regulations are the best approach to the question of shifting of U.S. profits to foreign subsidiaries. These present rules prevent such shifting and produce the correct answer, penalizing neither the U.S. company nor the foreign affiliate, but placing each in the same position it would be if it were unaffiliated.

Question No. 9. Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

Answer:

OUTSIDE UNITED STATES[1]

[Millions of dollars]

	1968	1969	1970	1971	1972	1973
Capital expenditures and intangible development costs	59	70	51	132	75	111
Earnings (losses)	(21)	(5)	4	19	20	81
Equity capital raised						
Debt capital raised	12					49
Total	(9)	(5)	4	19	20	130

[1] Includes Puerto Rico.

SUN OIL CO.,
St. Davids, Pa., March 29, 1974.

ROBERT M. WILLAN, Esq.,
Tax Counsel, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. WILLAN: Sun Oil Company is pleased to submit answers to the Senate Finance Committee questionnaire to all witnesses in the format suggested with your letter of March 19, 1974. Please be advised that Question Number 3 has been answered in the format requested by Senator Long.

A response has also been provided to Point 10 of the subsequent questionnaire to all witnesses. This point had not previously been provided. Additionally, we are submitting a response to your recent question regarding anticipated changes in earnings.

Sincerely yours,

ROBERT G. DUNLOP.

QUESTION NO. 1

[Dollars in millions]

	1973	1972	1971	1970	1969	1968
Total corporate:[1]						
Net income	$225	$152	$153	$138	$151	$163
Net assets	$1,845	$1,664	$1,640	$1,612	$1,550	$1,451
Rate of return net assets (percent)	12.2	9.1	9.4	8.6	9.8	11.3
United States:						
Net income	$144	$132	$134	$134	$156	$184
Net assets	$1,185	$1,055	$1,066	$1,154	$1,259	$1,172
Rate of return net assets (percent)	12.1	12.5	12.6	11.6	12.4	15.7
Foreign:[2]						
Net income	$81	$20	$19	$4	($5)	($21)
Net assets	$660	$609	$574	$458	$291	$279
Rate of return net assets (percent)	12.4	3.2	3.4	1.0	(3)	(3)

[1] Petroleum operations only.
[2] Includes Puerto Rico.
[3] Net loss.

QUESTION NO. 2

PETROLEUM OPERATIONS ONLY

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968
Net income:						
United States	$144	$132	$134	$134	$156	$184
Foreign	81	20	19	4	(5)	(21)
Total	225	152	153	138	151	163
Sales:						
United States	$1,860	$1,584	$1,557	$1,503	$1,401	$1,357
Rate of profitability (percent)	7.7	8.3	8.6	8.9	11.2	13.6
Foreign	$341	$266	$213	$183	$160	$143
Rate of profitability (percent)	23.9	7.3	9.1	2.4	(1)	(1)
Total	$2,021	$1,850	$1,770	$1,686	$1,561	$1,500
Rate of profitability (percent)	10.2	8.2	8.7	8.2	9.7	10.9
Taxes (other than excise):						
United States	$146	$120	$121	$125	$113	$111
Rate of profitability[2] (percent)	49.5	52.3	52.5	51.7	58.0	62.3
Foreign	$119	$68	$65	$58	$57	$42
Rate of profitability[2] (percent)	40.8	22.4	22.9	7.0	(1)	(1)
Total	$265	$188	$186	$183	$170	$153
Rate of profitability[2] (percent)	45.9	44.6	45.2	43.0	47.0	51.6
Employed capital:[3]						
United States	$2,023	$1,748	$1,650	$1,721	$1,595	$1,499
Rate of profitability[4] (percent)	8.1	8.5	8.8	8.4	10.2	12.7
Foreign	$712	$702	$687	$578	$509	$463
Rate of profitability[4] (percent)	11.8	3.3	3.2	1.6	0.2	(1)
Total	$2,735	$2,450	$2,337	$2,299	$2,104	$1,962
Rate of profitability[4]	9.1	7.0	7.2	6.7	7.8	8.7

[1] Net loss.
[2] As requested, calculated as the ratio of profit after taxes to profit before taxes.
[3] Defined as total assets less current liabilities. Foreign includes Puerto Rico.
[4] Corrected.

QUESTION NO. 3

SUN OIL CO.

[Dollars in millions]

Petroleum operations only	1973	1972	1971	1970	1969	1968
Total corporate:						
Exploration expense (intangible development costs)	$47	$52	$51	$39	$47	$55
Capital investment	278	268	322	326	253	268
Total	325	320	373	365	300	323
Earnings (after taxes) [1]	225	152	153	138	151	163
Exploration expense (IDC)	47	52	51	39	47	55
Total	272	204	204	177	198	218
Total investment and explanation as percent of increases and expenses	119.3	157.0	182.4	205.8	151.0	147.7
Total United States:						
Exploration expense (IDC)	$33	$33	$36	$31	$38	$44
Capital investment	181	212	205	283	192	220
Total	214	245	241	314	230	264
Earnings (after taxes) [1]	144	132	134	134	156	184
Exploration expense (IDC)	33	33	36	31	38	44
Total	177	165	170	165	194	228
Total investment and expenses as percent of increases and expenses	120.9	147.8	141.6	190.6	118.1	115.6
Total foreign: [2]						
Exploration expense (IDC)	$14	$19	$15	$8	$9	$11
Capital investment	97	56	117	43	61	48
Total	111	75	132	51	70	59
Earnings (after taxes) [1]	81	20	19	4	(5)	(21)
Exploration expense (IDC)	14	19	15	8	9	11
Total	95	39	34	12	4	(10)
Total investment and expenses as percent of increases and expenses	116.5	196.7	384.7	401.3	1,784.2[e]	

[1] Earnings (after taxes) are before dividend payment to shareholders.
[2] Includes Puerto Rico.

QUESTIONS NO. 3 AND 9 (REVISED)

SUN OIL CO.

[Millions of dollars]

Year	Capital expenditures and exploration expense	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery	Adjusted earnings plus capital recovery [1] (4+5)	Ratios: Capital expenditures and exploration expenses as a percentage of— Net income (1 ÷ 2)	Adjusted earnings (1 ÷ 4)	Adjusted earnings plus capital recovery (1 ÷ 6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic:									
1968	264	184	44	228	98	326			81.0
1969	230	156	38	194	102	296			77.5
1970	314	134	31	165	105	270			116.1
1971	241	134	36	170	120	290			83.1
1972	245	132	33	165	122	287			85.2
1973	214	144	33	177	150	327			65.5
6 yr	1,508	884	215	1,099	697	1,796			84.0
Foreign: [2]									
1968	59	(21)	11	(10)	9	(1)			
1969	70	(5)	9	4	14	18			382.0
1970	51	4	8	12	22	34			150.8
1971	132	19	15	34	25	59			221.6
1972	75	20	19	39	33	72			105.7
1973	111	81	14	95	30	125			88.6
6 yr	498	98	76	174	133	307			162.2
Total corporate:									
1968	323	163	55	218	107	325			99.2
1969	300	151	47	198	116	314			95.2
1970	365	138	39	177	127	304			120.0
1971	373	153	51	204	145	349			106.7
1972	320	152	52	204	155	359			89.2
1973	325	225	47	272	180	452			71.9
6 yr	2,006	982	291	1,273	830	2,103			95.4

[1] Cash flow has to cover not only capital expenditures but changes in working capital requirements and dividends to shareholders.
[2] Foreign includes Puerto Rico.

QUESTION NO. 4

SUN OIL CO.

[Millions of dollars]

	1973	1972	1971	1970	1969	1968
Total corporation:						
Petroleum earnings	$225	$152	$153	$138	$151	$163
Dividends [1]	$69	$68	$71	$69	$67	$55
Dividends as a percent of petroleum earnings	30.7	45.0	45.9	50.3	44.6	33.5
United States:						
Petroleum earnings	$144	$132	$134	$134	$156	$184
Dividends [1]	$44	$59	$62	$67	$67	$55
Dividends as a percent of petroleum earnings	30.7	45.0	45.9	50.3	43.1	29.7
Foreign: [2]						
Petroleum earnings	$81	$20	$19	$4	($5)	($21)
Dividends [1]	$25	$9	$9	$2		
Dividends as a percent of petroleum earnings	30.7	45.0	45.9	50.3	(3)	(3)

[1] Assumes dividends are payable out of petroleum earnings in the same ratio as petroleum earnings are to total earnings. Dividends applicable to petroleum earnings were split United States foreign in the same ratio as United States and foreign petroleum earnings were to total petroleum earnings.
[2] Includes Puerto Rico.
[3] Net loss.

QUESTION NO. 6

SUN OIL CO.

U.S. OPERATIONS CAPITAL REQUIREMENTS WITH RETURN ON INVESTMENT AT 1968-73[1] AVERAGE

[Dollar amounts in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gross investment in properties, plants, and equipment[2] Jan. 1		$2,778	$2,948	$3,132	$3,330	$3,544	$3,792	$4,056	$4,339	$4,641	$4,964	$5,309	$5,678
Rate of return[3] (percent)		6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Net income	$2,898	$167	$177	$188	$199	$212	$227	$242	$259	$277	$296	$316	$338
Noncash charges (5 percent of gross investment)	2,426	139	147	157	167	177	190	203	217	232	248	265	284
Less dividends (minimum of 25 percent of net income)	790	60	61	63	61	53	57	61	65	69	74	79	84
Funds generated	4,534	246	263	282	302	336	360	384	411	440	470	502	538
Capital requirements (includes intangible development costs—not included in gross investment; expensed for net income purposes)	6,114	332	355	380	408	454	485	519	554	593	633	677	724
Net changes in total debt[4]	705	39	38	42	45	53	57	60	65	69	74	79	84
Total debt, Dec. 31		556	594	636	681	734	791	851	916	985	1,059	1,138	1,222
Debt/equity ratio, Dec. 31[5] (percent)		30.1	29.7	29.3	29.0	28.7	28.4	28.1	27.9	27.6	27.4	27.2	27.1

[1] Because of a 1968 merger with Sunray DX Oil Co., figures for 1964-67 are not readily available on a consistent basis and have not been used.

[2] Assumes a retirement of gross investment of 4 percent per year.

[3] Return on gross investment prior to interest charges.

[4] Future debt capacity is assumed to equal retained earnings for the year times 1/3, or a 25-percent debt equity ratio. This debt capacity includes whatever offbalance sheet financing, if any, which may be employed. Because of the 25-percent debt equity ratio used and potential changes in financial reporting requirements, an additional funding of 13 percent of needs through offbalance sheet financing is regarded as unrealistic and was not used in the projections.

[5] Defined as debt divided by debt plus equity.

QUESTION NO. 6—Continued

U.S. OPERATIONS CAPITAL REQUIREMENTS WITH RETURN ON INVESTMENT AT 1½ TIMES 1968–1973 [1] AVERAGE

[Dollar amounts in millions]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gross investment in properties, plants, and equipment [2] Jan. 1		$2,778	$3,067	$3,386	$3,737	$4,124	$4,551	$5,021	$5,540	$6,111	$6,742	$7,436	$8,202
Rate of return [3] (percent)		10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Net income	$5,661	$261	$288	$317	$350	$386	$425	$468	$516	$569	$627	$692	$762
Noncash charges (5 percent of gross investment)	3,035	139	153	169	187	206	228	251	277	306	337	372	410
Less dividends (minimum of 25 percent of net income)	1,414	65	72	79	87	96	106	117	129	142	157	173	191
Funds generated	7,282	335	369	407	450	496	547	602	664	733	807	891	981
Capital requirements (includes intangible development costs not included in gross investment, expensed for net income purposes)	9,811	450	497	548	604	667	736	811	895	987	1,089	1,202	1,325
Net change in total debt [4]	1,418	68	72	80	87	96	107	117	129	142	157	173	190
Total debt, Dec. 31		585	657	737	824	920	1,027	1,144	1,273	1,415	1,572	1,745	1,935
Debt equity ratio, Dec. 31 [5]		29.8	29.1	28.7	28.2	27.8	27.5	27.2	27.0	26.8	26.6	26.4	26.3

[1] Because of a 1968 merger with Sunray DX Oil Co., figures for 1964–67 are not readily available on a consistent basis and have not been used.

[2] Assumes a retirement of gross investment of 4 percent per year.

[3] Return on gross investment prior to interest charges.

[4] Future debt capacity is assumed to equal retained earnings for the year times ⅓, or a 25 percent debt equity ratio. This debt capacity includes whatever offbalance sheet financing, if any, which may be employed. Because of the 25 percent debt equity ratio used and potential changes in financial reporting requirements, an additional funding of 13 percent of needs through offbalance sheet financing is regarded as unrealistic and was not used in the projections.

[5] Defined as debt divided by debt plus equity.

QUESTION NO. 9

[In millions of dollars]

	1973	1972	1971	1970	1969	1968
Foreign expenditures[1]	111	75	132	51	70	59
Foreign earnings	81	20	19	4	(5)	(21)
Foreign debt at year end	109	74	83	91	176	177
Total earnings and debt	190	94	102	95	171	156
Percent expenditures to earnings and debt	58.2	80.6	129.4	54.0	41.0	37.5

[1] Capital expenditures and intangible development costs. Includes Puerto Rico.

Question No. 10. What would have been the impact on rate of return on stockholders' investment in petroleum assets in the United States if there had been no depletion allowance?

Answer. The return on stockholders' equity for domestic petroleum operations was 15.7% in 1968, 12.4% in 1969, 11.6% in 1970, 12.6% in 1971, 12.5% in 1972, and 12.1% in 1973.

After adjustment to net income to reflect the elimination of the statutory depletion allowance, the return on stockholders' equity for domestic petroleum operations would have been 13.0% in 1968, 9.8% in 1969, 8.8% in 1970, 10.1% in 1971, 9.9% in 1972, and 9.1% in 1973.

RATE OF RETURN ON EQUITY

[In percent]

Year	With depletion allowance	Without depletion allowance
1968	15.7	13.0
1969	12.4	9.8
1970	11.6	8.8
1971	12.6	10.1
1972	12.5	9.9
1973	12.1	9.1

Question. What is your estimate of the probable change in first quarter 1974 earnings as compared to fourth quarter, 1973?

If you anticipate change, what are the principal factors to which you would attribute the change?

How do you project the possible impact of such factors in the second quarter, 1974?

Answer. Sun anticipates a modest increase in first quarter, 1974 earnings as compared to fourth quarter, 1973. The principal factor affecting earnings is new and released oil. While in Sun's view the volume of new and released oil is expected to remain relatively stable, it is not possible to predict market conditions which might impact on the price level of new and released oil.

STANDARD OIL CO. (OHIO)

Prepared Statement by Charles E. Spahr, Chairman of the Board and Chief Executive Officer, The Standard Oil Co. of Ohio

Mr. Chairman, my name is Charles E. Spahr and I am Chairman of the Board and Chief Executive Officer of The Standard Oil Company of Ohio. I am appearing today to provide the Committee my company's response to the questionnaire pertaining to domestic petroleum operations and investments.

It may be helpful for you to know that Sohio (as my company is commonly called) is a crude-deficient refining and marketing company serving Ohio and surrounding States and the Middle Atlantic States. Our domestic crude production amounts to about 7% of our 385,000 barrels per day refining capacity. We have a small interest in the Iranian Consortium with liftings equal to about 5% of our refinery capacity. In terms of assets we rank about 17th in the industry. In 1970 we acquired East Coast marketing facilities, two refineries, and valuable oil and gas leases on the North Slope of Alaska through a transaction with The British Petroleum Company Limited. Since then our main efforts have been directed to the development of our North Slope reserves, to obtaining a trans-Alaska pipeline permit, and to the realignment of the East Coast properties which remain unprofitable. We also have investments in petrochemicals, coal and fabricated plastics. We have developmental interests in oil shale, uranium and tar sands.

I am particularly pleased to have this opportunity to personally respond to your questions. I feel they are good questions and I hope our responses will be helpful to your considerations. The results of your deliberations will have a very significant impact upon Sohio and the petroleum industry and upon the entire private enterprise system of the United States as well.

Before proceeding to the questionnaire, I would like to comment on the subject of profit limiting legislation, whether it be additional taxes or some form of price control.

I am philosophically opposed to profit-limiting legislation. It is not the way by which our country became and remains the strongest in the world. I recognize that there are some who don't share my views in this regard. If those who disagree with me prevail, I believe that profit-limiting legislation should apply to all businesses, not just the energy companies. If our industry is to be the only one affected, it will be placed at a significant disadvantage in the competition for capital at a time when our capital needs are unprecedented.

I believe that the development of existing energy forms and the research and development of new energy forms need encouragement, not the prospect of a penalty if risk-taking investment is successful. Correction of our energy deficiency can only come through investment of huge sums of money. We are a very capital intensive industry. The existence or even the mere threat of profit limiting taxes will prevent the right kind of investment decisions from being made on a timely basis.

My company supports programs that would make this country more sufficient in energy. To this end I urge you to retain both the percentage depletion allowance and the deduction of intangible drilling costs for domestic development and production. These two incentives are particularly valuable to the independent driller and producer who has discovered most of our best oil fields in this country and whose efforts ought to be encouraged instead of discouraged at this time.

My company would support a requirement that the net tax benefits of these incentives be reinvested in a broad range of energy research or development to assure that the benefits of these incentives are being directed toward energy self-sufficiency.

In summary, I believe strongly that—

1. An excess profits tax or profit-limiting legislation will prove counter productive to our nation's needs for energy;

2. If our industry is deemed to have excess profits and taxed accordingly, then all of American industry should be equally taxed to create the same relative disadvantage in the capital markets;

3. Any excess profits legislation should provide for plowback exemptions for investments in energy development or research and there should be definitive provisions for termination. The reinvestments allowed for exemption should cover research, exploration, development, transportation, refining or upgrading, storage, and environmental protection for all energy forms;

4. A tax assessed at the wellhead can be counter productive and discriminate against the small producer and the development of economically marginal wells;

5. Domestic investment incentives represented by the depletion allowance and intangible drilling costs should be retained but modified to require plowback of tax benefits in energy-related investments; and

6. The Foreign Tax Credit should remain available to all American taxpayers. However, a review of payments to foreign governments with respect to amounts allowed as foreign tax credits is in order.

Many of the foregoing thoughts and comments are contained in a statement that our company made to the Committee on Ways and Means of the House of Representatives. I respectfully request that your Committee accept a copy of this statement and that it be made a part of the record of these hearings.

Now, I would like to address myself to your questions.

Question No. 1. What was the overall rate of return, after taxes, which your company realized on stockholders' investment devoted to exploration, development, production, manufacturing, transportation and marketing of petroleum products in the United States?

(*a*) Where applicable, please give the source of this information.

(*b*) Are these figures for U.S. operations different from the figures used in preparing the reports to stockholders and information provided the Federal Trade Commission for purposes of preparing its Rate of Return in Selected Manufacturing Industries? If so, please explain.

(*c*) How does the rate of return on U.S. petroleum investment, as described above, compare with your rate of return on other investments?

APPROXIMATE RATE OF RETURN ON SHAREHOLDERS' EQUITY

[In percent]

Year	Domestic petroleum operations	Other domestic operations	Foreign operations	All operations domestic and foreign
1964	10.6	7.4	76.1	13.5
1965	10.4	13.2	67.1	13.8
1966	12.7	.9	53.6	14.8
1967	15.7	(11.6)	55.2	14.9
1968	15.4	(.5)	41.7	13.9
1969	5.1	(.4)	55.9	5.6
1970	7.2	0	41.2	6.9
1971	4.8	(.9)	73.4	5.3
1972	1.6	13.0	1[illegible]2.4	5.4
1973	4.6	18.7	79.7	8.1
Average:				
1964 68	13.1	(1.0)	54.8	14.1
1969-73	4.6	5.6	77.6	6.3
1964-73	7.0	3.[illegible]	66.5	8.6

Note: Figures in parenthesis indicate negative numbers.

COMMENT

Our corporate accounting records served as sources of data used in calculating the rates of return shown in the above table. We report to our shareholders in accordance with S.E.C. requirements with respect to line of business accounting. For this purpose we use earnings before income taxes, interest and extraordinary items. Since accounting records are not usually kept in a way that the data is readily usable for computing the information you requested, it was necessary to make certain arbitrary assumptions and allocations. For example, shareholders' equity was allocated to each business segment based on its total assets less current liabilities relative to total corporate borrowed and invested capital. Corporate interest expense was similarly allocated. This is not done in any of our financial or tax records since we operate with a pool of capital concept. Most of any other data which required allocation followed our normal accounting procedures. The annual rates of return shown above are based on the average of the beginning and ending stockholders' equity. The data used in these calculations differs from that supplied to the Federal Trade Commission in that our report to the Commission does not reflect the arbitrary allocations to various business segments that we were forced to use in order to respond to your questions.

Sohio's record for the last ten years is composed of two distinct five-year periods. In the first period we were a regional refiner-marketer with domestic production amounting to 16% of our refinery runs. By the early 1960's we had made some fundamental decisions. We would seek to acquire petroleum reserves by acquisition since our finding efforts were not too successful; we would expand our marketing into states surrounding Ohio; we would expand our chemical activities, acquire a fabricated plastics business and enter the vending, motor inn and restaurant business. As the figures above show, we were successful in the petroleum business in the environment that existed in the second half of the 1960's.

There were ample supplies of low cost crude oil and the product price wars of the early 1960's were ending. Our non-petroleum investments slipped into a loss position as we broadened our investments and the agricultural chemicals began to run into problems.

By the mid-1960's we recognized that our program of acquiring oil reserves was not progressing as fast as the oncoming crude oil shortage. We attempted mergers with several companies who owned large oil reserves but we were not successful. We acquired oil shale properties and have done developmental research in oil shale which is continuing. We identified the potential for coal at a time when many investors thought coal would have no future due to its environmental problems and the anticipated conversion of electric generation to nuclear fuel and in 1968 we acquired the Old Ben Coal Company. Old Ben is a profitable operation. It has expanded its production 15% since we acquired it and it has a new mine under development. Old Ben's capital investments have equaled its cash generation since we acquired it.

With the crude oil shortage clearly in sight, we were anxious to acquire a major source of crude. When the North Slope of Alaska reserves were discovered we sought ways to participate. When The British Petroleum Company Limited approached us in late 1968 regarding a possible merger, we were receptive. By mid-1969 we had agreed to acquire a wholly-owned British Petroleum subsidiary which held the valuable North Slope leases and an East Coast marketing and refining business in return for a stock interest in our company. Despite the claims of others, we knew that the marketing and refining assets were not profitable at the time and, despite substantial realignments, they are still unprofitable.

The sharp decline in the petroleum return in 1969 shown in the column "Domestic Petroleum Operations" in the table on page 50 is caused by the inclusion of the operations of BP Oil Corporation although the transaction was not completed until January 1, 1970. The Department of Justice challenged the acquisition and we entered into a consent decree but too late to complete the transaction in 1969 as planned.

The continuing low returns from our domestic petroleum activities from 1969 to date reflect losses in the East Coast marketing and refining activities, competitive price wars in 1971 and 1972, and an investment of more than $400 million to develop the North Slope reserves and the trans-Alaska pipeline, on which we are receiving no return.

All of these factors served to reduce our return on petroleum investment to an inadequate level.

The returns for the years 1970 through 1973 include the effect of significant extraordinary gains or losses from asset sales or from withdrawal from various marketing areas of the East Coast.

Without these extraordinary items our returns for domestic petroleum activities would have been as follows for the period 1970 through 1973:

[In percent]

Year	Return as shown above including extraordinary items	Return without extraordinary items
1970	7.2	6.7
1971	4.8	4.9
1972	1.6	3.0
1973	4.6	3.0

It is not unusual that a corporation will often endure heavy expenses to develop a large investment as we are doing in Alaska. However, we need the prospect of good future profitability to carry this program forward. To set a profit limit based on our recent profit returns would be grossly unfair to our shareholders who have been waiting patiently for the start of North Slope production. It is still more than three years away.

Column headed "Other Domestic Operations" in the table on page 50 reflects the results of our chemicals, plastics and coal operations. In view of the low return on our domestic petroleum activities, we have been fortunate in that our chemical business has become profitable once again and coal continues to be profitable.

The column headed "Foreign Operations" in the table on page 50 includes the results of our interest in Iran, our Canadian operations and the licensing of Sohio inventions to foreign customers. We disposed of the Canadian operation in 1972. Since we have little if any investment in our patents, the rates of return for "foreign operations" shown on page 50 are not very meaningful but we have included them in the interest of completeness. Obviously, during recent years the results of "other domestic operations" and of "foreign operations" have been a big factor in the company wide level of profits.

Question No. 2. What is the rate of profitability to sales? To taxes, other than excise taxes? To labor costs? To total investment, including borrowed capital?

Year	Net income as a percent of sales	Net income as a percent of taxes except excise taxes	Net income as a percent of payroll	Return on borrowed and invested capital[1] (percent)
1964	8.3	109.2	54.6	9.9
1965	8.1	98.5	55.1	9.5
1966	9.3	132.5	69.0	10.9
1967	11.6	132.8	91.7	13.6
1968	11.4	114.4	88.8	13.6
1969	4.3	68.1	38.2	5.4
1970	5.8	276.2	50.6	5.5
1971	4.0	221.9	34.5	5.0
1972	1.4	62.5	10.9	2.6
1973	3.8	106.4	32.3	5.1
Average:				
1964-68	9.9	117.7	72.0	11.6
1969-73	3.8	122.8	32.5	4.6
1964-73	5.7	120.1	45.9	6.4

[1] Net income plus gross interest as percent of average borrowed funds, deferred items and shareholders' equity.

COMMENT

With respect to net income as percent of sales and return on borrowed and invested capital, the explanatory comments to Question #1 are applicable also.

The ratio of net income to taxes is almost self-explanatory. The tax burden on the petroleum business is substantial.

Labor costs in our company are undoubtedly higher relative to income than those of the typical petroleum company because we have always operated a significant number of our service stations with our own employees.

Question No. 3. What is the total of exploration expense and capital investment in petroleum assets, in dollars, year by year, and as a percentage of the sum of (a) earnings (after taxes and dividends) and (b) exploration items which were expense? Please indicate whether this table is based on income for tax purposes or for financial book purposes.

Year	Exploration expense and capital investment (millions)	Net income (after dividends) plus D. & D. and exploration expenses (millions)	Ratio of expenditures to net internal cash flow (percent)
1964	$44.3	$48.3	92
1965	69.6	50.8	137
1966	49.4	51.3	96
1967	48.5	58.8	83
1968	79.6	60.6	131
1969	169.5	56.7	299
1970	207.3	82.6	251
1971	159.9	69.3	231
1972	101.4	59.9	169
1973	179.3	77.9	230
Average:			
1964-68	58.3	54.0	108
1969-73	163.5	69.3	235
1964-73	110.9	61.6	180

COMMENT

The data used in this answer is that used for financial book purposes. We are including small amounts of oil shale and uranium expenditures in the above data. Per your request, we have modified the question to include depreciation and depletion as part of the cash generation from operations.

The data shows that Sohio has invested substantially more than its retained gas generation from domestic petroleum activities over the past ten years. Because of the heavy investments related to the North Slope and the low earnings, the cash generation deficiency has increased substantially. Based on our plans for developing the Alaskan operation, the deficiency will probably be even greater in the next few years.

Question No. 4. Provide information as to the dollar amount of petroleum earnings paid out in dividends during the applicable period and show dividends paid as a percent of U.S. petroleum earnings. Assume dividends are payable out of U.S. petroleum earnings in the same ratio as U.S. petroleum earnings are to total earnings.

Year	Dividends paid from petroleum earnings (millions)	Payout ratio (percent)
1964	$12.6	37
1965	13.7	39
1966	18.0	42
1967	24.4	43
1968	28.0	47
1969	27.6	70
1970	32.2	53
1971	29.0	67
1972	9.6	64
1973	18.6	42
Average:		
1964-68	19.3	42
1969-73	23.4	57
1964-73	21.4	50

COMMENTS

Over the years Sohio has attempted to maintain a dividend payout policy of about 45%-50% of earnings. In recent years the ratio has fluctuated above this rate. Despite our large capital requirements and depressed earnings, we have maintained, but not increased, the dividend since 1969 in recognition of the importance of dividends to our shareholders, particularly those who have been long-time holders of our stock.

Question No. 5. Fourth Quarter—1973 Earnings and Retail Prices. Please provide an explanation for any increase in U.S. fourth quarter 1973 earnings over earlier fourth quarter earnings. In this connection, it would be helpful if the explanation were to include an estimate of the proportion of increase attributable to (a) normal growth in sales, (b) inflation, (c) absence of soft markets due to shortages, (d) increase in ceiling price of domestic crude, and (e) any other factor increasing profit margin. To what extent are higher gasoline prices at the pump in the fourth quarter attributable to increases in cost reflected in the dealer tankwagon prices (explain the source of increase in costs)? To increases in profit reflected in dealer tankwagon prices? To increases in the retail margin (differentiate between company controlled retailers and independent retailers)?

COMMENT

We believe that the primary intent of this question is to identify the factors that caused domestic petroleum earnings to change. For this purpose we are using earnings before taxes and allocation of interest. Our 1973 fourth quarter earnings from domestic petroleum operations declined 80% from the like 1972 quarter.

We experienced a 20% decline in petroleum product sales volumes. About one-third of the decline can be attributed to the sale of our southeastern marketing properties to American Petrofina, Incorporated, at midyear. Our crude runs at our three remaining refineries were 8% lower than in 1972 due to crude shortages and our sales were on allocation..

Because of the numerous changes in our East Coast activities and the rapidly changing crude and product supply situation, it is difficult for us to completely trace the exact impact of each factor influencing our results.

Our records show that retail gasoline prices in the fourth quarter of 1972 were depressed enough to reduce our expected revenue during that period by about \$5.5 million. This amount is the approximate equivalent of the price recovery that was experienced during the first five months of 1973. All of our subsequent price increases have only reflected cost pass through adjustments.

The combination of higher prices and lower volumes resulted in a 12% net revenue increase; however, higher crude and product costs increased by more than twice the amount of the revenue gain. Partially offsetting the loss between revenue and product costs were lower operating, depreciation and administrative costs resulting from the East Coast realignments and asset sales.

The lag in our ability to pass through crude oil and product cost increases had an adverse effect on our fourth quarter results. We figure that if we had been able to pass through higher crude and product costs when they became effective, we would have had \$33 million more revenues in the fourth quarter.

Crude oil ceiling price increases of \$.35 on August 20 and \$1.00 on December 16 increased the revenues from oil production by about \$1.3 million in the fourth quarter, but increased our costs of purchased crude oil by more than this because our domestic production is only 7% of our refinery needs.

Our approximately 80% decline in domestic petroleum earnings before taxes and interest allocation becomes an 87% decline in real terms if our 1973 earnings are adjusted for the 8.4% increase in the Consumer Price Index between the fourth quarter of 1972 and 1973.

The last part of the above question addresses the question of the impact of dealer tankwagon price changes on the pump price of gasoline. In Ohio the tankwagon price increased 7.97¢ between December 1972 and December 1973. Of this increase, 7.5¢ reflects cost of crude pass through under the Cost of Living Council regulations and .47¢ reflects recovery from depressed prices in December 1972. This latter amount could be described as the increased profit margin in the tankwagon price versus a year ago. Until 1973, we had not raised our posted tankwagon price since late 1970. As you know, we are not permitted to increase prices for other than crude and product cost increases.

When the price freeze was lifted in September, the regulations forced a disparity between company controlled station prices and dealer prices if full cost recovery was to be achieved. We raised dealer tankwagon prices in October and November a total of .4¢ more than at our company stations. This inequity was removed in December when the regulations were modified. However, many independent dealers have set prices that they have deemed necessary. Accordingly, there is a wide variety of Sohio branded gasoline prices ranging upward from our salary station price. Some of these higher pump prices are in accordance with the regulations; some may not be.

Because of the numerous realignments and sales of marketing territories in our East Coast operations, we are not able to provide a meaningful discussion of price changes in this operation. The data shows that the tankwagon price averaged 26.5¢ in December 1973, up 7.8¢ from 18.7¢ in 1972. All of this increase is attributable to crude and product cost pass through.

Question No. 6. Provide an estimate of your capital requirements in the United States for the period 1974–85, (a) assuming your rate of return on U.S. operations was the same as your average rate of return for the period 1964–1973; and (b) assuming your rate of return was one and one-half times your average rate of return for 1964–73. Assume for this purpose that you will be able to borrow directly up to 25 percent of your financial needs and are able to use off-the-balance-sheet financing for 13 percent of your needs. What is your view as to the validity of such financing assumptions as applicable to the circumstances of your company?

CAPITAL AVAILABILITY AT 10-YEAR AVERAGE RETURN—7.3 PERCENT ON SHAREHOLDERS' EQUITY VERSUS 1.5x AVERAGE RETURN—11.0 PERCENT

[In millions]

Year	Case A assumes 1964-73 average return—Total funds from new B. & I. capital plus D. & D.	Case B assumes return 1.5x 1964-73 average—Total funds from new B. & I. capital plus D. & D.	Case B variance versus case A—Total funds
1974	$118	$152	$34
1975	123	162	39
1976	130	174	44
1977	136	186	50
1978	143	199	56
1979	150	212	62
1980	157	227	70
1981	164	242	78
1982	171	259	88
1983	180	276	96
1984	188	294	106
1985	196	314	118
Total	1,856	2,697	841

Assumptions: In addition to the assumption provided in your question, we made the following additional assumptions:

1. Dividend payout would be 45%.
2. Depreciation and depletion accumulate at rate of 5% of new borrowed and invested capital.
3. Rates of return were based on beginning of year shareholders' equity for this purpose.

COMMENTS

This hypothetical exercise clearly demonstrates the importance of a higher return. Based on our situation, a return on shareholders' equity 50 percent higher than our average for the past ten years would generate $841 million more during the 1974–1985 period. It is interesting to note that a 50 percent higher return would bring our return to 11%, which is less than the average for our industry and manufacturing companies as a whole for the past ten years.

The above cases show that at our ten-year average return, we would generate $1,856 million in 12 years and we would generate $2,697 million at a 50 percent higher return. To accomplish the development of our Alaskan reserves, to build our share of the trans-Alaska pipeline, and to modernize and expand our refineries will require expenditures between $2,000 million and $2,500 million in the next five years. We may need to arrange for tanker transportation, which would cost between $500 million and $750 million if we were to acquire the tankers. We are, therefore, planning to spend more in five years than the 150 percent case generates in twelve years. Needless to say, we will need to violate the borrowing constraints set out in your question if we are to accomplish our task, even if we are able to achieve the higher return. We can do this if lenders and investors are satisfied that profit limiting legislation will not make their investments unduly risky.

Question No. 7. What percent of your total United States sales of petroleum products during the applicable period were derived from foreign crude?

SOURCES OF U.S. SALES OF PETROLEUM PRODUCTS

[In percent]

	Derived from U.S. crude oil	Derived from Canadian crude oil	Derived from other foreign crude oil
Year:			
1964	92	8	0
1965	93	7	0
1966	88	12	0
1967	86	14	0
1968	83	17	0
1969	67	12	21
1970	76	9	15
1971	75	10	15
1972	71	13	16
1973	54	16	30
Average:			
1964-68	88	12	0
1969-73	68	12	20
1964-73	74	12	14

COMMENT

Sohio has depended primarily on domestic sources of crude oil during most of its history. As crude oil sources near our refineries began to decline, we utilized increasing amounts of Canadian crude in our Ohio refineries. Our Marcus Hook, Pennsylvania refinery uses offshore foreign crude.

After mid-1972 we lost 100,000 barrels per day of our domestic crude oil supply which could not be entirely replaced by foreign sources so that our refineries are operating below capacity. Currently more than half of our product sales are derived from Canadian and offshore foreign sources of crude oil and products.

Question No. 8. Describe the typical situations in which you have contractual relationships with a foreign subsidiary involving a pricing problem. To what extent do you believe it possible for a United States company complying with the present tax regulations governing such relationships to shift United States profits to the foreign subsidiary? Do you recommend any alternative approach for regulation of such transactions to prevent the shifting of United States profits to foreign subsidiaries?

COMMENT

I believe that the present tax regulations as they apply to the oil industry and as they are interpreted provide no opportunity to shift United States profits to a foreign subsidiary. Our experience has been that the interpretation and enforcement of the regulations has been very tough. In audits commencing in the early 1960's we believe all companies in the industry were found to have priced foreign crude in a manner which was later deemed to be a violation of the regulations. We have been assessed additional taxes in this connection.

Since the present regulations prevent profit shifting, I have no recommendation to make regarding alternative means to prevent shifting of profits from the United States.

Question No. 9. Provide information as to investments and expenditures outside the United States during the applicable period. Relate this information to the sum of (a) earnings outside the United States and (b) net equity and debt capital raised outside the United States, during the applicable period.

FOREIGN INVESTMENTS

	Foreign investments (millions)	Foreign investments as percent of foreign earnings	Foreign investments as percent of equity or debt raised outside of United States
Year:			
1964	$2.4	30.4	
1965	20.4	178.4	
1966	2.0	14.3	
1967	2.5	17.8	
1968	2.3	21.5	
1969	2.4	18.6	
1970	2.0	23.9	
1971	3.0	23.8	
1972	1.4	5.0	
1973		Inf.	
Average:			
1964-68	6.0	51.8	
1969-73	1.8	10.3	
1964-73	3.9	27.0	

COMMENT

The principal foreign investment made by Sohio was our 1965 acquisition of a majority interest in Canadian Delhi, Ltd. Our interest in this company was sold to St. Joe Minerals in 1972.

The primary sources of our foreign earnings are the interest in the Iranian Consortium, in which our investment is small, and the sale of licenses in connection with Sohio inventions in which there is no book investment. No capital has been raised outside the United States.

Question No. 10. Demonstrate what your rate of return on shareholders' equity would have been in each year if there had been no statutory depletion allowance.

RETURN ON SHAREHOLDERS' EQUITY ADJUSTED TO ELIMINATE STATUTORY DEPLETION

[In percent]

	Return from question No. 1	Adjusted return
Year:		
1964	10.6	9.5
1965	10.4	9.3
1966	12.7	11.6
1967	15.7	14.6
1968	15.4	14.3
1969	5.1	4.6
1970	7.2	6.8
1971	4.8	4.4
1972	1.6	1.2
1973	4.6	4.2
Average:		
1964-68	13.1	12.0
1969-73	4.6	4.2
1964-73	7.0	6.4

COMMENT

Although Sohio has not been a large oil and gas producer, the elimination of the statutory depletion allowance would have reduced our return by .6 percentage point or almost 10 percent in the average year.

THE STANDARD OIL CO.,
Cleveland, Ohio, April 5, 1974.

Mr. ROBERT M. WILLAN,
Tax Counsel, Senate Committee on Finance,
Washington, D.C.

DEAR MR. WILLAN: In response to your letter of March 19, 1974, we are submitting on the attached schedules the details of the calculations of our responses to your questions 1, 2, 3 and 6 which we submitted to the Senate Finance Committee on February 13, 1974.

After you wrote your March 19 letter, you told me by phone that you wanted to add the following question: "What is the current estimate of the probable change in your first quarter 1974 profits from your fourth quarter 1973 profits? What was the reason for it? How do you project the impact of the same factors in estimating your profit for the second quarter versus the first quarter?"

We are not providing answers to these questions since our first quarter results have not yet been announced and we have historically preferred not to comment on possible future profit levels.

Sincerely yours,

C. W. KARCHER.

QUESTION NO. 1

STANDARD OIL CO. (OHIO)

[Brackets indicate negative numbers; dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
All operations, domestic and foreign:										
Net income	$89.4	$57.5	$54.7	$69.0	$51.9	$70.1	$63.9	$56.9	$49.7	$43.8
Average stockholder's equity	$1,103.6	$1,060.2	$1,031.5	$1,001.3	$921.7	$505.1	$449.8	$411.3	$379.6	$353.3
Rate of return (percent)	8.1	5.4	5.3	6.9	5.6	13.9	[1] 14.2	[1] 13.8	[1] 13.1	[1] 12.4
Domestic petroleum operations:										
Net income	$44.7	$14.9	$43.1	$60.5	$39 3	$59.8	$56.8	$42.8	$34.7	$34.5
Average stockholder's equity	$962.2	$927.6	$890.9	$846.5	$769.6	$387.2	$365.0	$342.5	$335 5	$324.5
Rate of return (percent)	4.6	1.6	4.8	7.2	5.1	15.4	15.7	12.7	10.4	10.6
Other domestic operations:										
Net income	$20.8	$14.8	($1.1)	0	($0.5)	($0.4)	($6.9)	$0.4	$3.3	$1.4
Average stockholder's equity	$111.3	$113.1	$123.3	$134.3	$128.6	$92.4	$59.5	$43.2	$25.2	$18.5
Rate of return (percent)	18.7	13.0	(0.9)	0	(0.4)	(0.5)	(11.6)	0.9	13.2	7.4
Foreign operations:										
Net income	$23.9	$27.8	$12.7	$8.5	$13.1	$10.7	$14.0	$13.7	$11.7	$7.9
Average stockholder's equity	$30.1	$19.5	$17.3	$20.5	$23.5	$25.5	$25 3	$25.6	$18.9	$10.3
Rate of return (percent)	79.7	142.4	73.4	41.2	55.9	41.7	55.2	53.6	62.1	76.1

[1] Represents correction of numbers shown in statement to Senate Finance Committee dated Feb. 13, 1974. The previous number has been stricken out and the corrected number inserted.

Note: Some percents shown may appear to be off a tenth of a percent but this is caused by the fact that the percents were figured before the numerator and denominators were rounded off.

QUESTION NO. 2

STANDARD OIL CO. (OHIO)

(Revised per letter of May 31, 1974)

[Dollars in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
1. Net income: Domestic petroleum operations.	$44.7	$14.9	$43.1	$60.5	$39.3	$59.8	$56.8	$42.8	$34.7	$34.5
2. Domestic sales	$1,180.6	$1,084.7	$1,068.6	$1,045.9	$907.7	$522.7	$491.5	$458.7	$428.2	$416.2
Rate (1÷2) (percent)	3.8	1.4	4.0	5.8	4.3	11.4	11.6	9.3	8.1	8.3
3. Taxes other than excise taxes	$42.0	$23.8	$19.4	$21.9	$57.6	$52.3	$42.8	$32.3	$35.2	$31.6
Rate (1÷3) (percent)	106.4	62.5	221.9	276.2	68.1	114.4	132.8	132.5	98.5	109.2
4. Net income with gross interest add back	$71.7	$36.9	$68.1	$64.7	$52.9	$63.3	$60.4	$46.7	$37.9	$35.8
5. Average borrowed and invested capital	$1,418.9	$1,403.6	$1,365.0	$1,176.7	$973.7	$464.3	$443.3	$426.3	$399.9	$362.9
Rate (4÷5) (percent)	5.1	2.6	5.0	5.5	5.4	13.6	13.6	10.9	9.5	9.9

QUESTION NO. 3

STANDARD OIL CO. (OHIO)

[Dollars in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
1. Capital expenditures and exploration expenses	$179.3	$101.4	$159.9	$207.3	$169.5	$79.6	$48.5	$49.2	$69.6	$44.3
2. Net income from domestic petroleum operations after tax	44.7	14.9	43.1	60.5	39.3	59.8	56.8	42.8	34.7	34.5
3. Proportion of dividends payable out of above net income	18.6	9.6	29.0	32.2	27.6	28.0	24.4	18.0	13.7	12.6
4. Net income less dividends (2-3)	26.1	5.3	14.1	28.3	11.7	31.8	32.4	24.8	21.0	21.9
5. Add:										
Exploration expenses and dry holes expensed	1.1	1.4	3.6	4.4	6.2	2.2	1.5	2.5	4.8	4.6
Depreciation and depletion	50.7	53.2	51.6	49.9	38.8	26.6	24.9	24.0	25.0	21.8
6. Cash available (4+5)	77.9	59.9	69.3	82.6	56.7	60.6	58.8	51.3	50.8	48.3
7. Capital expenditures and exploration expenses as percent of cash available (1÷6)	230	169	231	251	299	131	83	96	137	92

QUESTION NO. 6

STANDARD OIL CO. (OHIO)

U.S. OPERATIONS CAPITAL REQUIREMENTS (AVAILABLE FUNDS) WITH RETURN ON INVESTMENT AT 1964-73 AVERAGE

[Millions of dollars]

	Total	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Investment Jan. 1		984.4	1,038.5	1,095.6	1,155.8	1,219.4	1,286.5	1,357.3	1,431.9	1,510.7	1,593.8	1,681.4	1,773.9
Rate of return (percent)	(11.0)												
Net income	1,774.1	108.3	114.2	120.5	127.1	134.1	141.5	149.3	157.5	166.2	175.3	185.0	195.1
Plant exhaustion	1,417.4	59.4	68.6	78.4	88.6	99.4	110.5	121.9	133.5	145.5	157.8	170.4	183.4
Dividends—50 percent	887.1	54.1	57.1	60.2	63.6	67.1	70.8	74.6	78.8	83.1	87.6	97.5	97.6
Funds generated	2,848.2	146.7	160.7	175.6	191.1	207.6	224.6	242.3	260.5	279.5	299.2	319.6	340.8
Net funds generated	2,744.5	146.7	160.7	175.6	191.1	207.6	221.3	235.5	250.0	265.1	280.7	296.8	313.4
Capital requirements[1]													
Borrowings	543.7	33.2	35.0	37.0	38.9	41.1	43.3	45.8	48.2	50.9	53.8	56.7	59.8
Total new borrowed and invested capital	1,430.8	87.3	92.1	97.2	102.5	108.2	114.1	120.4	127.0	134.0	141.4	149.2	157.4
Repayments—10 percent year[2]	103.7						3.3	6.8	10.5	14.4	18.5	22.8	27.4
1974							3.3	3.3	3.3	3.3	3.3	3.3	3.3
1975								3.5	3.5	3.5	3.5	3.5	3.5
1976									3.7	3.7	3.7	3.7	3.7
1977										3.9	3.9	3.9	3.9
1978											4.1	4.1	4.1
1979												4.3	4.3
1980													4.6

	Dec. 31, 1973	1978	1985
Debt	463.5	648.7	903.5
Equity	984.4	1,286.5	1,871.5
Total	1,447.9	1,935.2	2,775.0

Debt (percent)	(32)					(34)							(33)
Equity (percent)	(68)					(66)							(67)
Investment Jan. 1	...	984.4	1,020.3	1,057.5	1,096.1	1,136.1	1,177.6	1,720.6	1,265.2	1,311.4	1,359.3	1,408.9	1,460.3
Rate of return	(7.3)												
Net income	1,058.2	71.8	74.5	77.2	80.0	82.9	86.0	89.1	92.4	95.7	99.2	102.8	106.6
Plant exhaustion—10 percent	1,107.1	56.5	62.5	68.7	75.2	81.8	88.6	95.3	102.1	108.8	115.7	122.5	129.4
Dividends 50 percent	529.2	35.9	37.2	38.6	40.0	41.5	43.0	44.6	46.2	47.9	49.6	51.4	53.3
Funds generated	1,960.4	114.4	122.5	130.9	139.7	148.7	152.0	167.1	176.6	186.0	195.7	205.4	215.4
Net funds generated	1,894.2	114.4	122.5	130.9	139.7	148.7	155.8	162.6	169.7	176.7	183.9	191.0	198.3
Capital requirements [1]													
Borrowings	324.1	22.0	22.8	23.6	24.5	25.4	26.4	27.2	28.3	29.3	30.4	31.5	32.7
Total new borrowed and invested capital	853.3	57.9	60.0	62.2	64.5	66.9	69.4	71.8	74.5	77.2	80.0	82.9	86.0
Repayments—10 percent per year [2]	66.2						2.2	4.5	6.9	9.3	11.8	14.4	17.1
1974							2.2	2.2	2.2	2.2	2.2	2.2	2.2
1975								2.3	2.3	2.3	2.3	2.3	2.3
1976									2.4	2.4	2.4	2.4	2.4
1977										2.4	2.4	2.4	2.4
1978											2.5	2.5	2.5
1979												2.6	2.6
1980													2.7
	Dec. 31, 1973												
Debt	463.5					581.8							721.4
Equity	984.4					1,177.6							1,513.6
Total	1,447.9					1,759.4							2,235.0
Debt (percent)	(32)					(33)							(32)
Equity (percent)	(68)					(67)							(68)

[1] Not estimated.
[2] Beginning in 5 years from date of borrowing.

THE STANDARD OIL CO.,
Cleveland, Ohio, May 31, 1974.

Mr. ROBERT WILLAN,
Tax Counsel, Senate Committee on Finance,
Washington, D.C.

DEAR MR. WILLAN: Enclosed is our response to Question No. 2 in terms of domestic and foreign petroleum operations using the form of answer sheet you provided some weeks ago.

The data for domestic operations is similar to that sent to you on April 5, except that the "rate of Profitability" under the Taxes section has been corrected to be the ratio of Net Income After Taxes to Net Income Before Taxes. Further, the "Tax" figure for domestic in 1972 has been corrected because of an error in the numbers submitted to you in April.

The relationship of the figures for Domestic Net Income and for Taxes in 1969 may appear to be a little unusual to you. This is caused by the fact that on January 2, 1970, we acquired a company from British Petroleum for stock, and this transaction was accounted for as a pooling. Our 1969 results have been restated accordingly; therefore, the 1969 net income went down because the operations acquired had losses in 1969. However, taxes for 1969 were based on the operations which we had during 1969 prior to this acquisition; and, of course, the amount of these taxes remained unchanged.

Very truly yours,

C. W. KARCHER.

QUESTION NO. 2

STANDARD OIL CO. (OHIO)

WHAT IS THE RATE OF PROFITABILITY TO SALES? TO TAXES, OTHER THAN EXCISE TAXES? TO TOTAL INVESTMENT, INCLUDING BORROWED CAPITAL FOR DOMESTIC AND FOR FOREIGN PETROLEUM OPERATIONS?

[Dollar amounts in millions]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net income (from petroleum operations):										
United States	$44.7	$14.9	$43.1	$60.5	$39.3	$59.8	$56.8	$42.8	$34.7	$34.5
Foreign	7.5	4.6	4.2	2.7	4.8	5.4	6.0	6.1	7.0	5.8
Total	52.2	19.5	47.3	63.2	44.1	65.2	62.8	48.9	41.7	40.3
Sales (from petroleum operations):										
United States	$1,180.6	$1,084.7	$1,068.6	$1,045.9	$907.7	$522.7	$491.5	$458.7	$428.2	$416.2
Rate of profitability (percent)	3.8	1.4	4.0	5.8	4.3	11.4	11.6	9.3	8.1	8.3
Foreign	$44.4	$31.3	$35.1	$25.2	$29.3	$30.8	$41.2	$48.7	$41.1	$32.9
Rate of profitability (percent)	16.9	14.7	12.0	10.7	16.4	17.5	14.6	12.5	17.0	17.6
Total	$1,225.0	$1,116.0	$1,103.7	$1,071.1	$937.0	$553.5	$532.7	$507.4	$469.3	$449.1
Rate of profitability (percent)	4.3	1.7	4.3	5.9	4.7	11.8	11.8	9.6	8.9	9.0
Taxes (other than excise) (from petroleum operations):										
United States	$42.0	$19.1	$19.4	$21.9	$57.6	$52.3	$42.8	$32.3	$35.2	$31.6
Rate of profitability (percent)	51.5	43.8	69.0	73.4	40.6	53.3	57.0	57.0	49.6	52.2
Foreign	$10.4	$6.3	$6.7	$4.1	$5.4	$6.1	$6.2	$6.2	$7.3	$6.3
Rate of profitability (percent)	41.9	42.2	38.5	39.7	47.1	47.0	49.2	49.6	49.0	47.9
Total	$52.4	$25.4	$26.1	$26.0	$63.0	$58.4	$49.0	$38.5	$42.5	$37.9
Rate of profitability (percent)	49.9	43.4	64.4	70.8	41.2	52.8	56.2	55.9	48.5	51.5
Employed capital (from petroleum operations):										
United States	$1,418.9	$1,403.6	$1,365.0	$1,176.7	$973.7	$464.3	$443.3	$426.3	$399.9	$362.9
Rate of profitability (percent)	5.1	2.6	5.0	5.5	5.4	13.6	13.6	10.9	9.5	9.9
Foreign	(1)	(1)	$7.7	$11.5	$15.9	$19.6	$23.0	$28.6	$20.1	$7.5
Rate of profitability (percent)	(1)	(1)	61.0	29.6	35.8	33.2	31.7	24.8	41.8	77.3
Total	$1,418.9	$1,403.6	$1,372.7	$1,188.2	$989.6	$483.9	$466.3	$454.9	$420.0	$370.4
Rate of profitability (percent)	(1)	(1)	5.3	5.7	5.9	14.4	14.5	11.8	11.0	11.2

[1] Subsequent to the sale of all Canadian assets in 1972, the capital employed consists of an insignificant amount related to our [illegible]/12 of 1 percent interest in the Iranian oil consortium. A calculated return on capital employed for 1972 and 1973 would be meaningless as to foreign operations and, in fact, is relatively meaningless for all years as to foreign operations for the same reason.

Note: Employed capital percent is based on adjusted net income.

THE STANDARD OIL CO.,
Cleveland, Ohio, May 7, 1974.

Mr. ROBERT M. WILLAN,
Tax Counsel, Senate Committee on Finance,
Washington, D.C.

DEAR MR. WILLAN: In response to your recent request we are submitting on the attached schedule an answer similar to our response to Question No. 3 which we submitted to the Senate Finance Committee on February 13, except that the attached response relates to our foreign oil related activities whereas our prior response related to our domestic oil activities.

Very truly yours,

C. W. KARCHER.

QUESTION NO. 9

[In millions of dollars]

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
1. Capital expenditures and exploration expenses		1.5	3.4	3.3	2.7	2.4	2.9	2.2	2.8	2.4
2. Net income from foreign petroleum operations, after tax	7.5	4.6	4.2	2.7	4.8	5.4	6.0	6.1	7.0	5.8
3. Proportion of dividends payable out of above net income	3.1	3.0	2.9	1.4	3.2	2.5	2.6	2.6	2.8	2.1
4. Net income less dividends (2−3)	4.4	1.6	1.3	1.3	1.5	2.9	3.4	3.5	4.2	3.7
5. Add:										
Exploration expenses and dry holes expenses		.9	1.7	2.0	.8	.6	.9	.4	.4	.5
Depreciation and depletion		.6	1.9	2.4	2.7	2.8	2.7	2.5	2.1	1.1
6. Cash available (4+5)	4.4	[illegible]	4.9	5 7	5.0	6.3	7.0	6.4	6.7	5.3
7. Capital expenditures and exploration expenses as percent of cash available (1÷6) (percent)	Inf.	48	69	58	54	38	41	34	42	45

QUESTION NOS. 3 AND 9

Year	Capital expenditures and exploration expenses	Net income	Exploration expense	Adjusted earnings (2+3)	Capital recovery	Adjusted earnings plus capital recovery (4+5)	Ratios: Capital expenditures and exploration expenses as a percent — Net income (1÷2)	Adjusted earnings (1÷4)	Adjusted earnings plus capital recovery (1÷6)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
Domestic petroleum operations:									
1964	$44.3	$34.5	$4.6	$39.1	$21.8	$60.9	$128.4	$113.3	$72.7
1965	69.6	34.7	4.8	39.5	25.0	64.5	200.6	176.2	79.1
1966	49.2	42.8	2.5	45.3	24.0	69.3	115.0	109.0	71.0
1967	48.5	56.8	1.5	58.3	24.9	83.2	85.4	83.0	58.3
1968	79.6	59.8	2.2	62.0	26.6	88.6	133.1	128.3	89.8
1969	169.5	39.3	6.2	45.5	38.8	84.3	431.3	372.5	201.1
1970	207.3	60.5	4.4	64.9	49.9	114.8	342.7	319.4	180.6
1971	159.9	43.1	3.6	46.7	51.6	98.3	370.9	342.3	162.7
1972	101.4	14.9	1.4	16.3	53.2	69.5	680.5	622.0	145.9
1973	179.3	44.7	1.1	45.8	50.7	96.5	401.1	391.4	185.8
10 yr	1,108.6	431.1	32.3	463.4	366.5	829.9	257.2	239.2	133.6
Foreign petroleum operations:									
1964	2.4	5.8	.5	6.3	1.1	7.4	41.4	38.1	32.4
1965	2.8	7.0	.4	7.4	2.1	9.5	40.0	37.8	29.5
1966	2.2	6.1	.4	6.5	2.5	9.0	36.1	33.8	24.4
1967	2.9	6.0	.9	6.9	2.7	9.6	48.3	42.0	30.2
1968	2.4	5.4	.6	6.0	2.8	8.8	44.4	40.0	27.3
1969	2.7	4.8	.8	5.6	2.7	8.3	56.3	48.2	32.5
1970	3.3	2.7	2.0	4.7	2.4	7.1	122.2	70.2	46.5
1971	3.4	4.2	1.7	5.9	1.9	7.8	80.9	57.6	43.6
1972	1.5	4.6	.9	5.5	.6	6.1	32.6	27.3	24.6
1973		7.5		7.5		7.5			
10 yr	23.6	54.1	8.2	62.3	18.8	81.1	43.6	37.9	29.1

Note: Cash flow has to cover not only capital expenditures, but also changes in working capital requirements and dividends to shareholders.

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