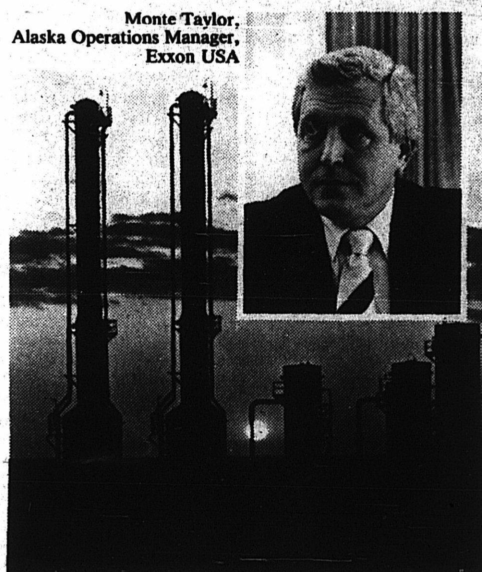
Let's talk...
about oil company profits.



Monte Taylor,
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Q *How can oil companies complain about high Alaska taxes when they still make excessive profits on a worldwide basis?*

A The most common misconception about the oil industry is that it makes unfair profits. Polls indicate about 75 percent of the people in the U.S. believe oil company earnings are too high. Most of these same people, however, think we make much more than we do. A recent poll showed the average American estimates that oil companies make 16 cents on a gallon of gasoline. Actually, for the industry as a whole, petroleum and natural gas earnings average only two to three cents per gallon of sales. For Exxon, in 1976, they represented 2.4 cents per gallon.

Q *Aren't oil company profits much higher than those of other companies?*

A No, they are not. One standard measure of profitability is return on the stockholders' equity—that is, the rate of return on capital invested by the owners of the business. On this basis, over the 10-year period of 1967-76, the rate of return for oil companies averaged 13.8 percent, only slightly above the average of 13.1 percent for all U.S. manufacturing firms.

Q *But how can you deny that oil industry profits are out of line when Exxon Corporation alone made $2.4 billion in 1977?*

A In terms of total dollars, $2.4 billion certainly is a large amount of money. It is quite normal, however, for large companies to make larger amounts of profit on a dollar basis than smaller companies. To put earnings in perspective, you have to consider them as a percentage of revenue, or of the amount of capital employed in the business, or of some other accepted measure. For instance, Exxon's total revenue in 1977 was $58 billion, which means we made 4.2 cents on each dollar of revenue. Most large businesses average about 5 cents on the dollar. If a small business had the same return, it would have to sell $400,000 worth of merchandise or services to make $20,000 profit.

Q *What did Exxon do with the $2.4 billion earned in 1977?*

A About half was distributed to more than 600,000 shareholders. Most of the rest was invested to help develop new energy supplies, or was used on other capital projects such as plant expansion or modernization. Reduced profits would make it increasingly difficult to finance the investments necessary to meet our nation's energy needs.

Q *You mentioned the development of new energy supplies. How much will that cost?*

A Overall, the U.S. oil industry is projected to spend an average of $25-$30 billion every year through 1990 to develop new energy supplies. This is about two or three times its average expenditures over the past decade. When you consider that a single exploratory well in Alaska might cost $12-$15 million and that one production platform in the Bering Sea is expected to cost $100-$200 million, you can see the vital role that profits play in meeting our nation's energy needs. Profits provide both energy and jobs. The famous union leader Samuel Gompers once put it this way: "The worst crime against working people is a company which fails to operate at a profit."

EXXON