

MOBIL HISTORICAL FILE Energy Crisis

**Mobil**

*Speech Kit file*

FILE  
COPY

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## Windfall profits tax

### What it would be

Some oil industry critics have suggested that a 'windfall profits' tax be imposed on the oil industry on the ground that oil companies have benefited abnormally from a national crisis.

### Reasons against it

1. No excess profits tax has ever been imposed on a single industry. Also, on the three occasions since 1917 that an excess profits tax has been imposed, it has been levied on almost all corporations to help pay for a war.
2. The argument for an excess profits tax depends on a definition of what is "normal." The oil industry claims that its 1969 - 72 earnings were subnormal, and that it is only now returning to a reasonable rate of return.
3. An excess profits tax would encourage companies to dodge it by wasteful expenditure.
4. Why only the oil industry ? Shouldn't we be looking at unprecedented jumps in wholesale prices (e.g. for meat) to see who made windfall profits ? Who made windfall profits out of the Russian wheat deal ?

Profits and taxes/

## Media Relations

Mobil has stepped up its efforts to explain its viewpoint in newspapers and on television. We have done this both by expanding our paid advertising campaigns and increasing contact with journalists.

But we face these problems:

1. We can't advertise on TV the way we would like, and are denied our right of free speech guaranteed under the First Amendment.
2. TV news programs dealing with oil matters are fragmented and incomplete; feature programs on energy have been incompetent and misinformed.
3. Our policy of buying newspaper space to tell our story the way we see it has been opposed by legislators and by critics who think we have an unfair advantage because we have more money than people who disagree with us.

### Mobil and TV

Facts are:

All three major networks have refused to let Mobil put on commercials the way it wants. The networks insist on being the final judges of what is acceptable, and they won't permit advertising they consider controversial (For example, words like 'offshore' and 'profit' can't be used.)

To circumvent this problem (opponents of "controversial" ads may demand equal time for reply) Mobil has offered to pay for equal time for its critics if it is allowed to run its own ads as it wishes. The networks have rejected this suggestion on the ground that it would set a dangerous precedent.

Similarly, TV networks wouldn't allow us to buy an hour's time to explain our position.

Mobil may have to consider legal action because we believe a fundamental right of freedom of speech is being denied us.

### Point to make

By their nature, TV news programs are unable to deal in depth with complex subjects. This difficulty is compounded by pressures on the networks to improve their viewer ratings i.e. to make TV news more entertaining and to appeal to the widest section of the viewing public.

Media Relations/

In this task they frequently resort to news consulting firms -- "show doctors" -- who generally recommend more showmanship in news programs.

The accepted stereotype of the news viewer visualized by these consultants is "Billy Bluecollar." Billy never went to college, has never been on a plane, has never read The New York Times. In fact, he rarely reads anything, and almost ignores TV news. But broadcasters across the country -- through motivational research and sophisticated surveys -- are designing news programs for him. They end up with slick, breezy shows, dispensing glip headlines and socko action.

In other words, pressures to improve ratings make TV less and less able to explain even moderately complex subjects. Certainly, any sensible explanation of a topic like oil industry profits would be beyond such TV news programs.

See William Buckley on this :

"In the last analysis, you need to count on the viewer's knowledge of the basic axioms of economics, about supply and demand, and resource allocation, and the function of price rises. These, alas, are hard to grasp. Harder still to grasp is the cynical exploitation of ignorance by demagogic Congressmen. A society that tolerates demagoguery is unlikely to penetrate economics."

#### Advertising substantiation

In January 1974 six members of Congress (Senators Bayh, McIntyre, and Moss, and Representatives Aspin, Rosenthal, and Young) asked the Federal Trade Commission to extend its advertising substantiation campaign to environmental and energy-related ads by the oil, utility, and electric appliance industries.

In a memorandum to the FTC, Mobil urged that the petition be rejected on the ground that implementation would raise First Amendment problems.

Points in favor of Mobil view:

FTC chairman **Lewis** A. Engman, whom Senator McIntyre asked to stop oil industry ads, gave his views in a talk to the antitrust law section of the Michigan bar (Feb. 18, 1974) as follows:

- Image ads are not commercials aimed at wooing customers, so that FTC action against them would violate companies' freedom of speech rights under the First Amendment.

Media Relations/

- FTC should only act against image advertising in clearcut cases of commercial effect. "Personally, I would conclude in a close case the wisest course is to give the benefit of the doubt to an advertiser's rights -- indeed to every citizen's rights -- under the First Amendment."

Edward D. Etherington, chairman of the National Advertising Review Board, stated in reply to a query by Sen. McIntyre that energy-related industries had "a right and an obligation" to express their views in public on condition that

- Advertisers should state any vested interest
- If an advertiser refers to research data, sources should be made clear.
- Advertising should not only be factual, but should avoid being accusatory or defamatory.

See also The Wall Street Journal:

"When an oil company takes an ad to suggest that its gasoline is good to drink, there is justification in having, say, the chairman of the board substantiate that claim by drinking a glass. But when it buys space to justify its profits, or to recommend a specific energy policy, a government move to throttle the company is nothing less than a censorship of ideas.

"If the company's case is weak and deceptive, there are sufficient numbers of politicians and commentators to hold it to account. Indeed, the reason their critics are rushing to a government censor to have them gagged is that the oil companies have been making some legitimate points."

Media Relations/

Mobil supports a variety of ventures in the arts around the world because

- We believe that corporations, as well as individuals, have a responsibility to enrich society.
- We want to show countries in which we operate that we understand and identify with their cultural aspirations.
- Such ventures bring Mobil credit as an enlightened company.

Following are some of Mobil's activities in the arts:

1. Masterpiece Theatre, a series of dramas and other programs produced by the British Broadcasting Corporation and sponsored by Mobil in the U.S. Distribution is nationwide through the Public Broadcasting Services' network of 200 stations. Objective is to bring good TV to an elite audience, and to make the audience aware of Mobil as a different company.
2. Sound Search, a music and dance contest for disadvantaged youngsters in New York City, sponsored by Mobil. A motion picture featuring a typical Sound Search winner, known in the U.S. as Manhattan Street Band and outside the U.S. as Red Drums has been shown around the world.
3. A Fable, a 17-minute color film, starring Marcel Marceau. Objective was to combat economic nationalism. The film has received eight major awards, and has been seen by more than 15 million viewers.
4. A documentary film, Nigeria: Its Art and Its People, made with Mobil help to enable the Nigerian government present an attractive picture of modern Nigeria.
5. Art contests held in Mexico, Venezuela, Ghana, Portugal, and the Philippines. Art works have also been selected and purchased in Indonesia. Objective was to associate Mobil with cultural aspirations of those countries.
6. Art exhibition in Germany, celebrating MOAG's 75th anniversary. Exhibition, which featured one work of German art for each year of Mobil's operation in Germany, was seen by thousands of people.

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Media relations/

## Angola

Mobil has had a small marketing operation in Angola for the past 60 years. Local law prohibits companies from keeping records on the basis of race, but about 25-30% of our 170-odd employees are black. We have both black and white Angolan supervisors, and there is complete racial equality in hiring and salary levels. Working facilities are completely integrated.

As with our South African operations, we believe no good would result -- quite the reverse in fact -- if we were to withdraw from Angola.

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International/

Communist trade

We are looking for opportunities to do more business with China and the Soviet Union, in any area which might be profitable. Of course, any operations we undertake would be consistent with U.S. government policies.

International/



Effect of Oil Prices  
on the World Economy

Note: Mobil people are frequently asked about the international financial implications of the rise in oil prices, balance of payments problems etc. The following may be useful in answering questions.

1. The key problem is the price of oil which has more than quadrupled within the last year. In the Persian Gulf, prices were in the \$2.00 - \$2.25 per barrel range in January, 1973 rising to \$2.75 - \$3.00 per barrel range prior to the October price increase. The embargo resulted in a rise in prices over the last quarter of 1973 and spot prices "peaked out" in the \$16 - \$20 per barrel range in December, 1973. This tremendous increase in the price resulted in the massive January 1, 1974 price increase for all oil. Currently, prices are in the \$10 - \$11 per barrel range. The prices of crudes from areas outside the Persian Gulf have followed the same trend.
2. Western Europe and Japan, and to an increasing extent the United States, are dependent on imported oil, a major portion of which comes from the Middle East, to meet the bulk of their energy needs. Thus, the prices increases will mean greatly increased costs for oil imports and a vast transfer of funds from the oil-consuming to the oil-producing nations. During 1974 the producers will have total oil receipts of about \$100 billion. About \$65 billion of this will be in excess of their current expenditures - or surplus funds available for investment.
3. This situation poses economic problems for the oil consuming countries. The initial effects on the economies will be contraction as the additional costs of the imported oil are withdrawn from the income stream and will not be available for other goods and inflation as the higher oil costs are passed through the economy. The first reaction of governments and central banks will be to maintain full employment by using expansionary monetary and fiscal policies to offset the contractionary effects of the oil debts. Yet, as we have already seen in the case of Italy, balance of payments pressures resulting at least partially from the oil costs may require further deflation as a part of economic policy.
4. Thus the answer to the economic health of the oil consuming nations becomes one of the investment of the surplus funds of the oil producing countries. Somehow the surpluses of the oil producers have to be made available to finance the current account surpluses of the oil consumers.
5. Some of the oil producing countries - Iran, Iraq, Algeria, Indonesia, Nigeria - will be able to use their funds for the development of their economies. However. Saudi Arabia, Qatar, Abu Dhabi, Kuwait and Libya will amass wealth beyond their absorptive capacity and will have large funds available for foreign investment.
6. So far much of the funds **which** have not been needed to meet current liabilities seems to be going into short term loans in the Eurodollar market. The Arabs, wary of the possibility that their funds may be blocked or their investments nationalized, prefer high liquidity. Some funds are going into real estate (Kuwaitis have bough property in the Champs Elysees, Kiawah Island, S.C. etc.). There is also Iran's recent deal to buy 25% of West Germany's Krupp steel. But this is only the

Effect of Oil Prices  
on the World Economy - 2

beginning as far as available funds are concerned. Then too, there is the fear that the Arabs could destabilize Western currency markets by moving large blocks of funds from one currency to another.

7. So many problems remain to be worked out. There seems to be a beginning by the producers in investing their surplus funds in the consuming countries. Yet, the countries chosen, the U.S., West Germany, are not necessarily those most in need of capital to finance their oil deficits. The capital has to be thus recycled to those that need it most by the international capital markets. The fear is that this recycling will not come soon enough and that the deficit countries will find it necessary to resort to import restrictions, competitive devaluations and other beggar-my-neighbor policies culminating in world recession. It is however, likely that plans can be worked out by international financial institutions.
8. The effect on less-developed countries which are not oil producers and which do not have other major raw materials (India, Pakistan, Bangladesh, central African states) will be much more severe than on the consuming nations as a whole. Increased oil costs would absorb all the aid they normally receive and they are facing increased costs for many other products as well. Lack of fertilizer (a petroleum product) on which food production depends could cause mass starvation. Thus the International Monetary Fund is trying to persuade oil exporting countries to recycle funds through IMF as loans to less-developed countries. The outlook for these countries, however, is not happy.

## Law of the Sea

The Third UN Conference on the Law of the Sea opened in Caracas, Venezuela on June 20, 1974. The meeting's agenda includes a most ambitious list of problems: breadth of territorial seas, passage through international straits, access to resources of the continental margins and deep seabed, management of the world's fisheries, marine pollution, and procedures for the settlement of ocean disputes. Even before the session began it was generally acknowledged that the issues were too complex and numerous to be resolved at this session, and a follow-up meeting in 1975 is now planned. Nonetheless, the delegates hope to produce proposals, for eventual inclusion in a binding convention, on at least some of the issues before the Conference.

With 149 nations participating, the Conference follows six years of preparatory work in committees of the United Nations. The first week of the session was devoted to lengthy debate concerning the Conference's rules of procedure. On June 27 the delegates approved a formula whereby decisions on substantive issues are to be taken by a two-thirds majority of representatives present and voting, but voting is to be deferred until efforts to reach a consensus have been exhausted.

John R. Stevenson, heading the U.S. delegation, has outlined the U.S. position at the Conference: acceptance of a 12-mile limit on territorial waters and a 200-mile economic resource zone for the exploitation of living and non-living resources. Such terms are conditioned upon approval of "an acceptable comprehensive package" including unimpeded transit through international straits and a system of compulsory arbitration of disputes. Britain and the Soviet Union also support the 12-mile territorial sea and 200-mile economic resource zone. The U.S. is prepared to support the creation of a regime to regulate the deep seabed but would limit its powers to licensing.

By July 15, roughly 115 states had presented general statements clarifying their views on the issues before the Conference. Three committees are now at work examining specific topics:

The First Committee is handling questions relating to exploration and exploitation of the seabed beyond the jurisdiction of coastal states. There appears to be strong support for the creation of an international authority to regulate such activity but as yet no consensus on its powers. Some would give this authority full administrative and executive powers and permit it to carry out exploitation on its own. China, acting as self-appointed spokesman for developing states, has argued for such a strong international authority.

The Second Committee is considering questions relating to territorial seas, economic zones, and international straits. At this point agreement on a 12-mile territorial sea and a 200-mile economic resource zone seems possible.

The Third Committee is examining marine pollution, scientific research, and transfer of technology. It is expected to recommend that states adopt preventive measures based on internationally-accepted norms.

International/

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Multinational oil companies, up to the end of the 1960's, played the major role in supplying the world's oil needs. Because of the international scope of their operations, they could "balance the barrel," providing the right products to the right customers at the right time. They were able to do this because they were "integrated" companies involved in all aspects of petroleum from exploration and production to delivery to the consumer.

Largely because oil was inexpensive and abundant, Western Europe and Japan greatly improved their living standards.

At the same time, the companies operated as a "buffer" between oil-producing and oil-consuming states, so that oil was a question of economics rather than politics.

#### Developments since 1970

Developments in the 70's have radically changed the international oil business. These developments included the Libyan production cutback and Tapline interruption, which combined with the continued closure of the Suez Canal first created a supply problem; the Tripoli

... producing countries higher tax

## Future of the Oil Multinationals

The role of the multinational oil companies is obviously changing, and will continue to change as oil-producing countries take over greater ownership and control of former company operations, and as oil-consuming countries pay ever-increasing attention to such questions as: Are we getting our fair share? Are we paying a fair price? Are companies making excessive profits at our expense?

Private multinational companies can be expected, however, to retain various advantages:

1. While the companies will often become hired contractors who pump, process, and move oil for producing governments, instead of entrepreneurs, they will remain a necessary source of technical, financial and management services.
2. The companies will retain their worldwide downstream facilities (shipping, refining, and marketing operations) and in some cases expand them. These operations will, of course, depend for their continued existence on the rate of return on investment the companies are allowed to make.
3. Oil companies will continue to offer advantages over government-to-government deals in several ways. For example:

-- Recent bilateral deals have only covered a fraction of some countries' requirements, and have been concluded **at high prices.**

-- Companies offer supply arrangements impossible in bilateral deals. (Example: Mobil has an installation for refueling aircraft in Ouagadougou, capital of Upper Volta. It's one of more than 500 Mobil airport installations in 70 countries. How could Upper Volta get its aviation fuel bilaterally ?

-- Companies can still match supply and demand in a way that government-to-government deals cannot, because of the wide variance in petroleum demand in different countries (e.g. gasoline demand from a barrel of crude ranges from 15 % in India and Japan to 45 % in the U.S. and Australia; fuel oil demand ranges from 16 % in the U.S., to 21 % in India to 61 % in Japan.)

**Note:** 100 countries export oil; of 121 countries, 120 import oil (Venezuela is only non-importer). To handle such a situation by bilateral country-to-country deals would immediately trigger a move to re-invent the multinational company!

4. The need for a political buffer between producing and consuming country governments still exists, although energy policy is now so important that governments may not be willing to leave it to companies.

But it is extremely significant that in the 1973-74 embargo governments tacitly left many of the allocation decisions to the international companies, refraining from unilateral action to guarantee their own supplies.

5. Multinational companies can assume part of the risk-taking that will be needed to develop new sources of crude oil. It is uncertain how much of the capital required will be supplied either from the producing countries from their surplus revenues or by the wealthier consuming countries. But it is to the world's advantage that risk-taking capital, involving highly specialized skills, is largely generated and invested by the international petroleum industry -- which for the first time in several years is returning to a level of economic return which would enable it to do the job.

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International/

## OPEC

The Organization of Petroleum Exporting Countries (OPEC) was formed in September, 1960 by Venezuela, Saudi Arabia, Iraq, Iran and Kuwait. One of its main purposes was to coordinate the petroleum policies of member countries and to achieve restoration of the 4 percent reduction in posted prices which occurred in August of 1960.

OPEC membership now includes 12 countries: Abu Dhabi, Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia and Venezuela.

Major OPEC-related developments have been:

- 1964 - Improved government take through royalty expensing agreement.
- 1967 - Improved government take through phasing-out OPEC allowances.
- 1970 - September: Libya was successful in obtaining an increase in posted prices and an increase in tax rate to cover retroactive claims.
  - Posted prices were increased on Eastern Mediterranean and Nigerian crudes **by companies**.
  - November: companies agreed to increase posted prices of 31¢ and heavier crudes 9 cents per barrel and increase tax rate to 55% in Persian Gulf.
  - December: Caracas meeting of OPEC demanding increase in posted prices of all crudes, a minimum 55% tax rate and elimination of OPEC allowances.
- 1971 - Teheran, Tripoli and Lagos Agreements increased posted prices and provided for a yearly increase in posted prices through 1975.
- 1972 - January; Geneva Agreement to give recognition to the effect on OPEC revenues of wide changes in the monetary values (currency changes).
  - June: nationalization of IPC's northern crude fields.
  - December: agreement for government participation in Saudi Arabia, Qatar, and Abu Dhabi was reached granting government 25% participation commencing January 1, 1973 increasing in accordance to a prearranged schedule to 51% by January 1, 1982. Companies received compensation plus the right to purchase a portion of the government's entitlement at agreed prices. Kuwait and Iraq did not accept the participation agreement.
- 1973 - Iran & Consortium reach agreement effective March, 1973 which gave Iran the financial equivalency of participation.
  - June: Geneva currency agreement amended to make crude postings more responsive to currency changes.



- June: BP/Shell agreement on participation with Nigeria for 35% participation commencing April, 1973.
- August: Oasis and Occidental agree to 51% participation in Libya.
- September: Libya nationalizes 51% of the major companies.
- October: Vienna talks fail and OPEC meets in Kuwait and unilaterally increases posted prices 70 percent effective October 16, 1973. Sulfur premiums are included in posted prices of some crudes.
- On October 17 Arab nations order production cutbacks and embargo on oil liftings to the U.S., Netherlands and other countries.
- Iraq nationalizes the U.S., Dutch and Portugese interests in Basrah Petroleum.
- December: OPEC announces posted price increases effective January 1, 1974 that more than doubled the October 16 prices. Arabian light posted price went from \$2.59 per barrel in January, 1973 to \$11.65 per barrel in January, 1974.
- 1974 - Companies operating in Qatar agree Qatar will increase interest in company operations there to 60% effective January 1, 1974.
- Embargo against the U.S. lifted on March 19.
- Mobil and Exxon agree with Libya on 51% participation.
- May: Kuwait National Assembly ratifies participation agreement which give Kuwait 60% participation effective January 1, 1974 and the financial equivalency of 25% participation in 1973.
- June: Aramco makes interim agreement giving Saudi Government 60% participation.
- June: OPEC meeting in Quito, Ecuador, freezes posted prices through September, but increase government take by royalty rates from 12.5% to 14.5% or the equivalent.

International/

## South Africa

Mobil has conducted business in South Africa since 1897. We presently market petroleum products there through Mobil Oil Southern Africa, and operate a refinery in Durban through Mobil Refining Company.

In 1972, following discussions with the United Church Board of World Ministries, Mobil published a report to its stockholders giving details of its South African operations, including the number of white and nonwhite employees in each salary group, salaries over a 10-year period, and benefit plans.

Comparison with other company programs shows that Mobil is one of the leaders in providing good pay and opportunities for its nonwhite employees. This is particularly the case since late in 1973, when Mobil implemented a policy to pay all employees the Minimum Effective Level -- a rate calculated to include various amenities beyond subsistence living (and Mobil's MEL, worked out by a consulting professor, was higher than most MEL's calculated by other institutions).

Also, African leaders frequently tell us that we can do more for nonwhites by remaining in South Africa and raising living standards, rather than divesting ourselves of our South African operation in response to U.S. domestic pressures.

### Note on Rhodesia

Although Mobil brands are still sold in Rhodesia through a marketing operation which reports to Mobil Oil South Africa, the Rhodesian government supplies oil and products through a government agency. We cannot repatriate dividends from Rhodesia and do not supply the operation with manpower or new capital.

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International/

## Lobbying

1. Lobbying is justified under the First Amendment to the Constitution -- a company as well as an individual has the right to petition for the redress of grievances. Some of our lobbying is just that; for example, a land-use bill before both Senate and House committees would seriously have affected Mobil's interests if it had gone through unchanged, since it would have adversely affected our refinery locations. We were able to explain our position, and Congressmen agreed that the bill in its original form would have discriminated against us. So we were able to get an amendment passed that greatly improved the bill and protected our interests.
2. A lobbyist also performs a vital function as an educator. Congressmen simply do not have the time, nor are they sufficiently staffed to keep up with all the complex fields on which they should be knowledgeable, and the lobbyist can be of real help in explaining the complexities of the energy business.
3. Critics of the "powerful oil lobby" fail to recognize that the oil companies have been singularly unsuccessful in getting their way in recent years -- see, for example, the long delays in getting the Alaska pipeline approved, and the failure to begin offshore drilling on the East Coast or to continue it on the West.
4. Value of lobby system is its pluralism. There is more to lobbying than the milk industry and ITT; it ranges all the way from Planned Parenthood to the National Association of Cemeteries -- cradle to grave, in fact.

And it is certainly not clear that pressures by Naderites -- self-appointed advocates for an ill-defined constituency -- are any "purer" than those by advocates with a clearly defined constituency.

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## Minorities in Mobil

Mobil is doing its best to recruit more blacks and other minority people to its staff, and to promote them to positions of responsibility as soon as we can. Of course, we're handicapped in one way -- there just are not enough qualified minority people to go around, and we find ourselves competing with other companies for them.

In 1973, about one in every five employees Mobil hired was a minority group member.

We have initiated programs to track the progress of minority employees with potential for advancement.

In our recruiting efforts, we cover 26 traditionally black colleges.

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Miscellaneous/

## Political contributions

Mobil has an explicit policy against contributions to political candidates and parties by the company. This policy was in operation before the 1972 election campaign. Both outside and internal auditors monitor observance of this policy.

Recently, Mobil's Board adopted a resolution reiterating the policy and ensuring that it is brought to the attention of every employee.

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## Women in Mobil

Mobil is committed to promoting more qualified women into managerial positions. Of course, we are limited in what we can do by the fact there are very few qualified women in some of the technical aspects of our business -- although we do have several women chemical engineers on our staff.

But we have had women in executive positions for more than 15 years. Since 1971 we've had a Personnel Development section which helps management upgrade all personnel -- particularly women -- into more responsible jobs. We're including more women in management education courses, and we're holding seminars for managers in the field to help them expand opportunities for women.

Why no women on the board? Mobil doesn't "showcase." We believe in getting the best people able to contribute to the company's profitable, responsible growth, regardless of race or sex.

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Miscellaneous/

## How to use this speech kit

This kit will help you talk about the energy situation in a variety of ways. You can cover the whole subject ("conspiracy" theories, energy shortage, solutions, etc.) by using the material on the blue pages, with selected additions from each section. Alternatively, you can adapt the material to discuss various aspects of the total problem. The kit should also help answer most of the questions you may be asked.

A complete talk, keyed to a set of slides which will be provided, is at the back of the kit.

~~##~~

Today I'm going to talk to you about the energy problem -- what it is, what it isn't, how it came about, and where we go from here.

Of course, we are all involved in the problem, in one way or another. We're asked to turn down our thermostats. We're paying more for gasoline -- and sometimes being forced to line up to get it. We're having to drive more slowly -- and less often.

For some people, these are minor sacrifices. For others, they add up to drastic changes in lifestyle. But, for everybody, the energy problem is a drain on the pocket book and -- perhaps even more important -- it's a shock to us as a nation accustomed to an abundance of just about everything.



As a result, many people have begun looking around for villains. They shout at the service station attendants who hang out the "no gas" sign. They blame Washington, the Arabs -- and the oil companies. They even say that there really can't be a genuine crisis, and that the oil companies -- either with or without the government -- have contrived the whole thing to jack up their profits.

Note to speaker :

In a short talk, you may want to pass directly to the section on "Energy shortage". If you want to rebut specific accusations, you may use any of the material following.

"To give some examples of charges made against the industry, etc."

"Conspiracy" /

## Allocation

I'm sure we've all heard stories that some parts of the country have ample supplies of gasoline, while others have very little. And, once again, the implication is that there's really plenty of gasoline, and somebody is holding it back.

On this one, I can assure you that Mobil is allocating its gasoline fairly across the board. Allocations to our dealers are calculated on a percentage rate, based on purchases made from Mobil in a previous period.

We don't discriminate in favor of company-owned or company-operated stations as opposed to lessee stations or retail outlets not owned by Mobil.

"Conspiracy" /

Some critics claim that the oil industry is a monopoly -- that six or seven companies somehow got together to set prices or control supplies.

Well, I can assure you that this doesn't happen. For one thing, the oil business operates in a goldfish bowl these days, and we couldn't get away with it if we wanted to.

In any case, it would be an odd monopoly. The biggest U.S. marketer of gasoline sells just over 8% of the gasoline sold in this country. The 15 companies normally considered "majors" have increasingly been losing ground to independents.

As Mobil said in an advertisement in the New York Times, "43,141 companies have a monopoly in the U.S. oil business," including big corporations, smaller "independents," wholesalers, distributors, and many more. In fact, there are a lot more companies involved than 43,000-odd -- but I guess our guys just got tired of counting.

"Conspiracy" /

Companies are sometimes accused of exchanging products one with another, and the inference is that this is somehow collusion among the big companies.

I think the best way to answer this one is to quote the Wall Street Journal :

"Mobil might have more than enough product to meet its contract needs in New York, but not in California. Shell might be in the reverse situation. They exchange, and Mobil avoids having to send a fleet of tankers from New York to California at the same time Shell is going in the opposite direction. The process goes on among the independent producers and refiners as well, but is obviously limited to those who have something to barter.

This may look like monopoly to the FTC, but to us it looks like efficiency. It is the consumer, after all, who would ultimately pay for both Shell's tankers steaming East and Mobil's tankers steaming West. More generally, it is the consumer that anti-monopoly laws are intended to protect; they are not designed for the benefit of competitors who aren't quite big enough to play in the game they have chosen. And poring over all of the practices cited in the FTC complaint and staff study, it's hard to discern anything that increases the prices the consumer pays for gasoline or fuel oil."

## Exports

You may have heard the charge that oil companies are exporting products, at a time when we need all the products we can get right here.

Let's look at the facts.

The industry is exporting some lubricating oils. But not only are these exports a fraction of 1% of total production, but there is no shortage of lubricants in the U.S. anyway.

We've also exported some coke. But this couldn't be used here because of environmental restrictions.

You should also know that the U.S. government requires an export license for all products. The industry wasn't even allowed to send propane and butane across the border to Mexico, even though some people there had no other forms of energy.

And, I can positively assure you we're not exporting heating oil.

"Conspiracy" /

A major accusation against the oil companies was made last July, when the Federal Trade Commission alleged that eight companies -- including Mobil -- have combined, or agreed to monopolize refining in the East and Gulf Coast states and parts of the mid-continental area.

The charge, of course, stems from the fact that independents cannot buy products from the majors the way they used to. As the Wall Street Journal commented :

"The allegation simply means that the major oil companies have not found it profitable to build refineries, at \$250 million each, fast enough to insure the independent jobbers and refiners all the cut-rate gasoline they can use."

William Simon, who is in charge of U.S. energy policy, has also protested to the FTC on their charges. He too made the point that the independents used to get surplus product from the majors. But this, as Mr. Simon said, was not because of deliberate anti-competitive actions by the big oil companies, but simply because domestic supply hasn't been able to keep up with demand.

"Conspiracy" /

Independents

You may have heard the charge that the major oil companies are trying to drive the "independent" marketer out of business.

The people who make this complaint have a fuzzy notion of who is independent, to say the least. The people who operate 98% of the Mobil-branded service stations in the U.S., plus most of the distributors who handle Mobil gasoline and heating oil, are independent businessmen. They are customers of ours. They are tied to the company only by normal, voluntary business contracts.

We are continuing to supply all our established customers, dividing our available supplies as fairly as possible. To begin supplying private-brand marketers -- the so-called "independents" -- would unfairly reduce the supplies for our established customers, since we have no surplus.

Mobil has seldom had any surplus to sell to private branders. We are short of crude oil in the U.S., and it would be poor business to buy even more crude oil to make products for sale to private-branders at the prices they have been willing to pay. So our whole

"Conspiracy" /

. . . / .

MEDIUM-RANGE

LONG-RANGE  
CALIFORNIA

ENERGY

SHORTAGE

MIDDLE

EAST

SHORT-RANGE  
CALIFORNIA

Independents (cont.)

system has long been geared to meet only the needs of our own Mobil-branded customers.

Some other oil companies apparently operate in the same way; a recent Federal Trade Commission staff study reported that private-brand marketers have been buying only about 2% of their products from the eight largest oil companies. If this figure is correct (or even if it is several times too small) it seems obvious that the largest companies couldn't drive private-brand marketers out of business by denying them supplies -- even if they wanted to -- because the private branders buy nearly all of their supplies from the other 100-odd refiners.



## Refinery capacity

You may have heard the charge that the oil companies deliberately cut back on refinery construction in the United States, to create a shortage of products.

Now it's true that the only U.S. refinery to be built from the ground up was Mobil's 160,000-barrel-a-day refinery at Joliet, Illinois. But there are good reasons why there aren't any more.

Look at the economics. A major refinery today carries a price tag of over \$200 million. Before you commit that kind of money, you need to know you'll have crude oil available. Because we've had little incentive to explore for new oil sources, and didn't know what to expect in the way of government imports policy, the industry just has not been able to commit the funds in many instances.

In any case, environmentalists have in several instances blocked the industry's efforts to build new refineries. We in the oil business are also concerned about the environment -- but all too often the environmentalists have said in effect: "Build your refineries where

## Refinery capacity (cont.)

you like, just don't put them in my back yard." In particular, environmentalists have stopped us from building the deepwater ports the country needs -- and the refineries to go with them.

### Note:

The following are some examples of delay in refinery construction caused by environmental concern :

- Shell's attempts to build a 200,000 b/d refinery on Delaware Bay were thwarted by a state law banning all refinery construction.
- A 100,000 b/d plant proposed by Supermarine Inc. at Hoboken, N.J. was withdrawn under environmentalist pressures.
- In South Plainfield, N.J., citizen opposition forced cancellation of a \$150 million synthetic gas plant proposed by TET-Consolidated Natural Gas.

Shut-in production

Companies are accused of shutting in production so that they can get higher prices at a later date.

On this charge, I can tell you that Mobil's domestic reserves are being produced at maximum capacity. The only restriction is a practical one: we have to practice conservation in such a way as to achieve maximum recovery for each field.

## Tankers holding offshore

Many of you have heard reports that holding tanks are filled to the brim while tankers wait offshore -- presumably until prices go up.

These charges have been made about oil company tankers off the U.S. East Coast, the West Coast, and on the Mississippi River, to my knowledge.

The charges are another part of the welter of charges being hurled at the petroleum industry for no good reason.

For one thing, the charge shows a misunderstanding of the way companies operate. Refiners simply cannot meet peak seasonal demand directly from plant production. So they have to stockpile product to cover peak season needs. These stocks may be high or low depending on the weather and other factors, and stocks were generally high at the beginning of the year because the weather was warmer than usual.

As for the tanker charge, it simply isn't true. And don't take the oil companies' word for it. Ask the U.S. Coast Guard -- they have checked and reported no tanker pile-up on the East Coast, West Coast, or Gulf Coast.

"Conspiracy" /

To get at the facts, I suggest we start by getting rid of some of the emotionalism we all feel. Instead of a crisis, let's talk about a shortage. Less petroleum than we need for all the activities that were traditionally reliant on petroleum.

How did this shortage come about? The newspapers and television reports give the impression that it happened overnight. But the shortage has developed gradually. We've all contributed to it.

Living in a country rich in mineral resources, we've traditionally had abundant energy at reasonable prices. As a result, we've taken our energy supplies for granted. And -- to put it bluntly -- we've wasted energy. We've insisted on larger cars than we need -- cars that gulp great quantities of gasoline. We've put air conditioners in our cars, further cutting our gas mileage. We've used our cars when we might have joined car pools or taken a bus or train.

And it isn't just cars. Even a small lawn must have a power lawn mower. There are electric tooth brushes, electric hair dryers, electric power saws -- ~~all high energy users~~. We've also kept our houses five to ten degrees hotter than Europeans.

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blue

There was nothing unethical in any of this. It all seemed so practical. We were living in a fool's paradise, and we didn't know it.

As is usual in any crisis -- or any "shortage" -- there were danger signs. A brownout here, a "no gas" sign there. Nothing alarming.

In May 1972, Mobil ran an advertisement in the New York Times on "the gap" -- that is, the gap between static supply and rising demand. Others in the oil industry were aware of the gap, but neither Washington nor the public felt any same sense of urgency. A year later, the headline for another ad was "A Gasoline Shortage? Yes. Sad, but true."

Note to speaker :

You can give your own explanation of the shortage, either briefly or at length, by using some of the material following. Suggested lead-in :

"Let's step back a bit and see how the shortage developed, etc. ..."

Energy shortage /

SOLUTIONS

## Balance of payments

Note: Balance-of-payments effects of oil imports are presently difficult to assess. The following notes may be helpful.

Future oil imports to the United States are presently difficult to forecast. Certainly, earlier projections, which depended on the assumption that Saudi Arabian and other crudes would be available to meet any U.S. demand, have proved unrealistic.

If we expect Saudi and other government tax take to be about \$7 a barrel, compared with \$2 previously, then the balance-of-payments outflow on 2 million barrels a day imports would be

$$\$5 \times 2 \text{ million} \times 365 \text{ per annum} = \$3.6 \text{ billion annually.}$$

This presumably would be offset somewhat by greater dollar purchases by the producing states, investments, etc. But the figure depends obviously on a variety of factors -- volumes, cost, etc. -- which are not presently foreseeable in detail.

## Coal

Development of new coal supplies has been held back by several factors. Among them:

-- In the 1960s, advocates of nuclear power plants persuaded the nation that atomic power was cheaper than coal power, and that the selling price of coal would have to be reduced if it was to remain competitive.

These predictions meant that investors were no longer interested in advancing the large sums of money needed for opening of new mines. Railroads also let their coal-carrying capacity decline because coal seemed to have such a dim future.

-- Enactment of increasingly restrictive local air pollution regulations hit hard at coal. Most of the coal used for steam generation is high in sulfur. Such coal, when burned in a boiler, causes emission of sulfur oxides -- which have been a particular target of air conservation rules. No feasible way has yet been developed to remove the sulfur from coal, and practical methods of controlling stack gas emissions have yet to be perfected.

-- Increased emphasis on safety regulations have resulted in higher costs.

Energy shortage /



## Duration of the shortage

How long will the shortage last?

It's important to realize that the crisis won't go away when the Arabs lift their embargo. If that is all they do, Arab production will still be cut back by \_\_\_\_ million barrels a day below last year's figure before the Mideast war. In this case, little more oil can be expected to flow to the United States.

If the Arabs do cancel the production cutback, we'll get some respite after a month or so, when the ships from the Persian Gulf begin to arrive. But it is problematic how much of the additional crude will come to the U.S., and how much will go to Western Europe and Japan.

In any case, we do not anticipate that we will be able to purchase all we anticipated we would need before the cutback -- since our estimates were based on the assumption that Saudi Arabian production in particular would continue to rise and that the price would not increase to anything like the extent it has done. So we will face a "shortage" of one kind or another for many years to come.

Energy shortage /

## Effect on the economy

Note: The effect of the energy shortage on the future of the U.S. economy is impossible to predict, but the following comments from the Council of Economic Advisors' Annual Report (published February 4, 1974) may be useful :

-- "The reduced availability and higher price of gasoline will curtail the demand for large automobiles, for the services of motels, and for other tourist services."

-- "The shortage of heating oil and gasoline will cut the demand for new houses."

"How serious these effects are will depend on the amount of the cut in oil supplies or on the rise in price. In addition to these transitional problems, there will be a continuing effect on the real standard of living of the American people as a result of being cut off from low-cost sources of oil. That means that we shall have to pay more of our own products or assets to foreigners in exchange for their oil, that we shall have to devote more of our own resources to producing energy domestically, and that we shall have to accept methods of production or forms of consumption we could not have chosen if more oil had been available at a lower price."

-- " .... There will be a marked slowdown, and possibly an absolute decline, in demand and output in most of the countries with which we do business .... This outcome will influence the U.S. in a number of ways."

"It should help to retard the increases in prices of industrial raw materials .... The increase in the value of the dollar in the last quarter of 1973 should also help to slow down the rise of dollar prices of internationally traded commodities. The net effects on trade are not clear."

Delays in authorizing the Alaska pipeline have kept Alaskan oil from increasing U.S. supply. The discovery of oil and gas at Prudhoe Bay, on Alaska's North Slope, was made in 1968, and we estimate that Alaska now has over 10 billion barrels of proven crude oil reserves, plus more than 26 trillion cubic feet of natural gas. Yet delay in granting the necessary approvals for pipeline construction has meant that we probably won't get North Slope oil now before 1978.

Once again, let me say that Mobil too is interested in protecting the environment. But let me point out that :

-- Only a minuscule part of Alaska -- about 8 square miles -- will be affected. Building a pipeline from Prudhoe Bay to Valdez is comparable to drawing a thin chalk line across a gymnasium floor.

-- The pipeline has got to be the best planned, best researched environmental project ever. We've worked with the University of Alaska's Institute of Biology, with its Institute of Marine Science, and with many other research institutions. We've made hundreds of test borings to select a route that will take the line through rocky,

Environment / Alaska (cont.)

stable, dry permafrost for most of its journey.

We've designed the system to be stable under the most severe earthquakes expected along the route.

We've studied the habits of the caribou, the grizzly bears, the golden eagles -- you name it.

In summary, we've done our part to make the pipeline as safe as possible, with minimal disturbance of the environment. We're sorry that approval was delayed so long and deprived us of a safe supply of oil which would have helped us greatly in this crisis.

Energy shortage /

Environment / automotive

Emission controls on newer-model cars have hiked gasoline consumption by 300,000 barrels a day, according to a U.S. government agency report last June. The figure is certainly higher now.

While we agree that automobile emissions can and should be reduced, we continue to believe that timetables and standards have been unrealistic -- particularly in the light of the fuel shortage. This is because EPA regulations tend to ignore technical advice from industry and even from EPA's own experts.

For example, both the automobile and petroleum industries recommended a maximum of .07 grams of lead per gallon of gasoline. EPA has regulated .05, without justification. Indeed, EPA staff documents and other government materials indicate little evidence that people's health will be affected by the decrease in permitted lead levels.

Energy shortage /

EDOM - KHNGE

SCHLITZ

10/11/70

10/11/70

## Environment / Offshore Drilling

Environmental opposition, litigation, and uncertainties have delayed development of offshore reserves. For example :

- No new leases have been issued in Federal or State acreage offshore California since the Santa Barbara incident. This is despite the fact that Santa Barbara was only one of four major spills to occur around the U.S. coast out of 17,000 wells drilled, and despite the fact that no permanent damage resulted from the spill.
- Opposition by Atlantic coastal states and environmental groups is still likely to cause considerable delays. Even if lease sales were held tomorrow, at least six more years would be needed to complete the process of evaluation, drilling, and initiating substantial deliveries.
- Previous leasing in the Gulf of Mexico has been slowed by environmental litigation and extensive requirements for environmental impact statements for each sale.

Energy shortage /

## Imports

As the gap between U.S. production and demand has widened, we have come as a nation to rely more and more on imported oil to feed our voracious energy needs.

For many years, Mobil has realized the danger of over-dependence on insecure foreign sources of oil. When President Eisenhower introduced his program to restrict imports in 1959, we supported it, in the belief that the program would encourage the development of a healthy U.S. petroleum industry in the national interest.

I think we were right. The program did encourage exploration, particularly on the North Slope. Also, as we told the Cabinet Task Force on Import Controls in 1969 :

"The United States should not be placed in a position where it is vulnerable to international squeeze plays in which one foreign country or a group of countries can combine to extract concessions in return for maintaining the flow of oil to the United States."

I wish some people had listened to us then!

But in 1969, we did advocate controlled increases of imports to meet

Energy shortage /

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Imports (cont.)

demand till other domestic sources were available. We objected to a proposed tariff system to replace the quota system, since its avowed purpose was to drive down domestic prices nearer to the level of less expensive foreign crude.

When foreign crude prices rose to equate with, and then surpass, U.S. prices, there was no longer any reason to support a quota system, which had in any case become cumbersome and inefficient.



## Natural gas pricing

The nation has drifted into a critical shortage of natural gas. The basic reason for this is a decision the U.S. government took way back in 1954 -- to regulate wellhead prices of natural gas destined for interstate commerce.

Because of that decision, natural gas became such a bargain that consumption increased faster than it would have done otherwise. Also, controls reduced the incentive for oil companies to go out and find more gas.

One result is that the U.S. government has now had to approve the importation of liquefied natural gas at a far higher price than domestic gas -- which makes no economic sense.

## Nuclear power

Nuclear power development has fallen far below expectations, and its failure to live up to predictions has contributed significantly to the present energy shortage.

In 1968, the Department of the Interior projected an anticipated capacity of 57,000 megawatts of electricity to be generated from nuclear reactors in the U.S. by 1973 -- based on plants under construction, in operation, or programmed at the time of the report.

In fact, less than one-third of the anticipated 1973 capacity is actually in operation; and nuclear power today provides less than one per cent of our energy needs.

While there is no doubt that nuclear power will be immensely important in the future, it is expected to provide only 10% of the nation's energy in 1985 because of the long lead-time involved. Delays in getting nuclear power plants on stream are, to a large part, due to environmental opposition to possible radioactivity, thermal pollution of nearby waters, and disposal of spent uranium fuels.

U.S. supply / demand

The basic reason for the present oil and natural gas shortage is simple. Demand has continued to rise, at roughly \_\_\_% a year since 19\_\_\_. This, at compound interest, is \_\_\_% by 1973.

At the same time, proven reserves have not kept pace with growing demand. Reserves in 196\_ were in fact about the same as 10 years earlier, and have since actually begun to decline. Here are the figures :

1960:	Proven oil reserves	_____	billion bbl.
	Natural gas reserves	_____	trillion cubic feet
196_:	Proven oil reserves	_____	billion bbl.
	Natural gas reserves	_____	trillion cubic feet
1973:	Proven oil reserves	_____	billion bbl.
	Natural gas reserves	_____	trillion cubic feet

Put another way, the reserve-to-production ratio -- the number of years it would take to use up all reserves at the rate of consumption in any one year -- has declined from \_\_\_\_\_ in 1960 to \_\_\_\_\_ in 196\_ to \_\_\_\_\_ in 1973.

U.S. supply / demand (cont.)

These figures, of course, do not include reserves discovered in the Alaskan North Slope -- estimated at \_\_\_\_\_ billion barrels. These reserves, however, are inaccessible and will continue to be so until the Alaskan pipeline is built.

The widening gap has up to now been filled by imported oil (see section on Imports).

Then came the 18-day war in the Middle East, and the Arabs cut off oil shipments to all unfriendly nations -- among them, the United States -- in an effort to influence world diplomacy in their favor. Most western nations, more dependent on Arab oil than we, quickly adjusted their Middle East policies. But even partial cutbacks in their oil shipments had major repercussions in countries such as Britain and Japan. For the United States, the message was clear: no oil would be forthcoming until the Israelis relinquished the territories gained in the 1967 war.

But even without an embargo, the United States will continue to face problems over Middle Eastern oil. For one thing, the Arabs have learned that their oil may be more valuable in the ground than in the marketplace. It is therefore unlikely that we will ever get the greatly expanded Middle Eastern imports which we used to project as necessary to fuel our expanding economy. And it's not only a question of volume, it's now a question of price, and Middle Eastern crude oil prices have absolutely skyrocketed in the past year.

(To elaborate on this . . . )

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## Arab embargo

On October 17, 1973, Arab oil ministers announced a cutback in oil production of 5% cumulative per month, until Israel withdraws from lands conquered in the 1967 war and grants Palestinians their "rights". Cutbacks were directed at the U.S. and any other countries supporting the "Zionist cause".

Iraq rejected the embargo but called for nationalization of U.S. interests in Arab countries, withdrawal of Arab funds from the United States, and breaking of economic and diplomatic relations between Arab countries and the U.S.

Cuts have been somewhat reduced for most European countries and Japan, but the embargo against the U.S. and other countries continues.

The Middle East war between Egypt and Israel on the Western front and between Syria and Israel on the Eastern front on the Golan Heights broke out on October 6, 1973.

A U.N.-sponsored ceasefire between Egypt and Israel and Syria and Israel went into effect on October 24, and a U.N. peace-keeping force was sent to the Middle East.

An agreement on disengagement of Egyptian and Israeli forces was reached on January \_\_\_, 1974.

The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960 to coordinate the petroleum policies of member countries, to stabilize international oil prices, and to secure a steady income to the producing countries.

OPEC membership now includes the 11 principal foreign oil-producing countries: Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and Venezuela.

These 11 countries control about two-thirds of the world's proved oil reserves. Western Europe depends on OPEC members for over 80% of its oil, and Japan for over 90%.

In recent years, OPEC has been able to obtain substantial increases in payments from oil companies operating in member states, with posted prices (the price on which taxes are based) rising in some cases from about \$3 to \$12 a barrel and more.

Moreover, OPEC has successfully demanded participation in the ownership of oil companies operating in member countries. Some countries have already achieved 25% participation, and are scheduled to obtain 51% by 1983. Discussions involving far higher percentages and accelerated timetables have also been held.



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So the question is: Where do we go from here?

As you know, President Nixon has set a goal of making this country sufficient in domestic energy by 1980. This is a worthy goal -- but an unrealistic one. No one I know in the oil industry thinks it is attainable. Not unless the country is willing to undertake a crash program for energy similar to the effort expended at the time of a major war.

Frankly, I'm not sure that the American public is ready for such an effort -- an effort surpassing even the Apollo moon program in cost and intensity. It would require tens of billions of dollars. And it would definitely call for compromises on conservation and environmental controls.

But there are things we can do -- in the next ten years, in the years after that, and in the next century -- first, to live more comfortably, and then to assure ourselves of the energy we need.

In the short term, we must emphasize conservation. Already, we are seeing a trend to smaller cars. People are becoming concerned about

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Short range /

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the way their homes are insulated. Industry is beginning to conserve fuel. I can tell you that Mobil undertook a comprehensive energy conservation program last year which resulted in significant savings.

Extension of offshore drilling is also a necessity if we are to increase domestic production. Until now, we have been prohibited from drilling in many promising areas because of environmental restraints. However, there are many areas -- such as the waters off the East Coast -- that apparently contain sizeable deposits of oil. And we currently have the technology that could claim this oil -- utilizing almost no risk of polluting coastal beaches.

By adjusting our priorities, we would not ignore the environment -- any more than we can afford to ignore our energy needs. Instead, we would be attempting to balance the two needs -- that of clean air and ample energy supplies. Construction of the Alaska pipeline, which has been held up until recently by environmental fears, involves such a balance. So would increased use of coal in utilities.

And, of course, we should deregulate the price of natural gas.

(See following pages for elaboration of these and other points.)

Short range /

## Conservation

### Homes

There are all kinds of ways in which homeowners can cut down on fuel consumption.

Mobil has a booklet, How to Save Heat in your Home, which lists a lot of these. We also have copies of a first-class Popular Science article entitled "Beating the Energy Crisis: More Heat from Less Fuel." \*

### Automobiles

There are many ways in which you can cut down on gasoline consumption. Most of us can stand some improvement in our driving habits, and Mobil has some material which will help you. We should make more use of car pools, and -- of course -- consider alternate means of travel wherever possible.\*\*

### Industry

Mobil and other oil companies are trying hard to avoid waste of petroleum. For example, we:

\* Copies of these are part of speech kit.

\*\* Copies of op-ed ads 2/22/73 and 4/26/73 are part of speech kit.

## Conservation (cont.)

- Use production equipment and techniques that help avoid expensively wasteful accidents (well fires and blow-outs for instance).
  
- Design and operate our pipelines to reduce possibilities of breaks and leaks.
  
- Use the load-on-top system in our tanker fleet, to avoid loss of oil into the sea (for both economic and environmental reasons) and double-bottom tankers -- a Mobil development -- as more protection against wasteful spills.
  
- Use petroleum refining techniques that make every drop of crude oil useful in some way.
  
- Develop fuels and lubricants that help engines operate more efficiently -- and more economically.

In these and scores of other ways, we work to avoid waste. This is good business, good environmental protection, and good conservation.

Deepwater ports

America needs more ports capable of handling "Very Large Crude Carriers" -- VLCCs -- which have come to dominate world oil transportation.

These vessels, ranging upward from 150,000 deadweight tons, can carry oil much more cheaply than several smaller vessels of equivalent total tonnage. This economy of size has been a favorable factor in the pricing of petroleum products in Western Europe and Japan, but not in the United States -- simply because there is not a single port in the U.S. capable of handling them.

Thanks to modern technology, these ports can be built without scarring the landscape. A "single-point mooring" -- SPM -- system can be used to locate deepwater ports wherever they are needed. These SPMs can be located far out at sea, and even the tankers unloading at them would be virtually invisible from shore. SPMs have proven performance record around the world, without serious pollution damage.

Short range /

ENLIGHTENED  
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## Mass transit

Development of adequate mass transit systems could be a major way of reducing gasoline consumption in the United States over the next decade.

Mobil was the first major oil company to recognize this need publically -- our first advertisement on the subject ran in The New York Times in October 1970. As we have stated publically, public transportation can not only help people travel to and from large cities faster and more comfortably, but it also conserves energy and reduces air pollution. We feel our products -- mainly gasoline and motor oil -- ought to help more people get where they want to go. We don't believe the gasoline consumed by a car idling in a traffic jam or along a congested highway is the best use of America's limited fuel resources.

We have never advocated diversion of gasoline taxes. We think the Highway Trust Fund has become an ineffective mechanism and an undesirable one, since such earmarked trust funds by-pass the normal legislative process. In our view, Congress should appropriate from the general Treasury the large sums needed to meet the country's transportation needs -- both highways and public transportation.

Short range /

## Offshore drilling

Stepped-up offshore drilling is the best way to find new sources of oil and gas for the U.S. in the near term. According to the U.S. Geological Survey, substantial quantities of oil and gas may exist beneath the Georges Bank, some 30 to 120 miles off New England, and beneath the Baltimore Canyon Trough, 25 to 90 miles off the coast of the mid-Atlantic states. There are still substantial prospects for discovery of oil and gas off the Gulf and West Coasts.

So far the United States, unlike many other countries, has refused to attempt development of such high-potential areas, mainly because of environmentalist pressures and red tape. This is in spite of the fact that some 17,000 wells have been drilled in U.S. coastal waters in the past 25 years, and only four have resulted in significant oil spillage. Not one, including Santa Barbara, has caused permanent ecological damage.

Also, to make sure we preserve the environment, we drill under the strictest kinds of government rules and regulations. Moreover, we constantly review our offshore drilling and production practices to minimize the possibility of accidents.

## Strip mining of coal

Strip mining of coal has been conducted for many years and could be extended to recovery of large deposits in the western states -- Montana, Wyoming, etc.

The problem is that such strip mining will be expensive if the coal companies are obligated to restore the landscape to anything like its previous appearance.



## Sulfur limits

Limitations on sulfur content in the atmosphere in our big cities have severely restricted the use of coal and some varieties of crude oil.

Relaxation of some of these restrictions would contribute to the availability of increased energy supplies.

## Use of coal in utilities

Due to sulfur content restrictions and smoke problems in many parts of the country, much of the available coal cannot be burned in utilities.

Coal can, however, be converted to methane gas. This offers hope of an important solution to the nation's energy problems.

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If we are looking to the period between 1985 and 2000, some other solutions are possible. The U.S. has reserves of coal and oil-bearing shale which could keep up supplied with energy for hundreds of years, and the technology to produce oil and gas from these sources is already well beyond the pilot-plant stage.

Nuclear power plants will certainly play a wider role in this period. But we have a long way to go before we solve the environmental problems involved -- radioactive waste disposal and thermal pollution.

(For details on these and other possible developments, see following pages.)

## Coal gasification

We're just beginning to make full commercial application of technology for coal gasification. Up till recently, the cost in relation to imported oil would have been thought high, but coal gasification is becoming a viable alternative as imported oil prices rise.

Actual cost estimates vary greatly, from about \$1.60 to over \$2 per million BTU, equivalent to about \$9 to \$12 a barrel of oil.

The general consensus is that coal gas might be contributing the equivalent of 500,000 to a million barrels of oil by 1985. But this will be small in comparison with a projected 1985 U.S. energy requirement of over 50 million barrels.

## Coal liquefaction

Coal liquefaction converts coal into petroleum liquids -- oil, gasoline, or other fuels -- or into a low melting-point solid suitable for use in firing power boilers.

Pilot plants testing two liquefaction processes are in operation, and another is planned. However, no process has been developed to enable coal liquefaction to compete with other energy fuels, and huge capital requirements would be necessary.

## Nuclear power plants

Atomic power plants have proven their worth as a means of generating electric power. In this way, they can help conserve fossil fuels for such uses as transportation, home heating, and chemical synthesis.

But nuclear programs have consistently fallen behind predictions, due to soaring capital costs, construction delays, and concern for problems of radioactive waste disposal and thermal pollution. For these reasons, nuclear power is expected to play a significant role in supplying U.S. and other nations' energy needs only after 1985.

A nuclear "breeder reactor" could extend utilization of atomic power toward the turn of the century. The United States, especially, is exploring this technique, which would help overcome the shortage of high-grade uranium by converting non-fissionable material into fissionable material, actually producing more fuel than it consumes.

Oil shale deposits are widely distributed over the United States. The richest deposits are concentrated in Wyoming, Utah, and Colorado, and the best of these are in the Piceance Creek Basin in Colorado.

Two ways of mining shale are presently feasible -- underground excavation and surface excavation.

In general, underground excavation is preferable where the ore body is thin in relation to the rock on top of it and the seam is not too thick (it has been demonstrated that an 80 to 100-foot oil shale seam can be mined with 60-80% recovery of oil in place).

But where the deposits are thick -- 1,500-foot deposits, for example -- surface mining is the only possibility.

Both methods would be uniquely large ventures and would require special equipment. For example, the largest underground coal mine in the U.S. produces about 7 million tons of coal a year; underground mining would have to produce 55 million tons of shale a year to supply a 100,000 barrel-a-day plant. Similarly, the deepest U.S.

## Shale oil (cont.)

surface mine is 2,000 feet deep; the thick shale deposit mine would be 3,000 feet deep. Mining of these thick deposits would be by far the largest earth-moving operation ever attempted.

As far as processing is concerned, the theory is simple. Heat is applied to crushed shale so that the hydrocarbons vaporize and can be collected. In practice, however, there are difficult engineering problems in applying the heat in a controlled fashion.

In terms of economics, prospects for shale products look much better than they did because oil prices are going up.

But problems remain to be solved:

Disposal of spent shale will be a major concern. It can swell in volume by up to 30% during retorting. Some of it can be put back in the mine but the rest has to go somewhere else.

Also, huge quantities of water will be needed to cool and damp down spent shale. Today, essentially all the available water in the Southwest is being used. Some water could be diverted for existing use, but eventually major diversions of water, from sources such as the Columbia River, might be necessary, as a means of opening up a significant portion of the United States where economic growth is restricted by lack of water.

Medium range /



## Tar sands

Deposits of tar sands are found in 14 U.S. states and in Canada (as well as in other countries including Venezuela). In the U.S., the largest deposits are found in Utah, California, Kentucky, Oklahoma, and New Mexico.

The only existing plant is operating in the Athabasea tar sands region near Fort McMurray, Alberta, Canada, and a second plant is under study. Production is technically feasible, but has not been economically viable so far.

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If we look into the next century, there are other possibilities -- solar energy captured by huge solar-cell panels in orbit around the earth -- nuclear fusion which could produce clean, cheap, and virtually inexhaustible energy supplies.

(To elaborate . . . )

Long range /

## Nuclear fusion

A nuclear fusion reactor, predicted as a possibility for the next century, would utilize the same principle as the hydrogen bomb. The reactor would combine deuterium atoms to make helium atoms, releasing nuclear energy at the same time.

There is enough deuterium in the oceans to provide all the energy man is ever likely to need. The problem is that no method has been discovered to control and sustain the reaction. Particularly, no known container material could withstand the intense heat which would be generated (50 million degrees centigrade); scientists are therefore considering containment of the reaction through magnetic fields.

## Other future sources

Other future sources of energy, sources not yet proven economically and technically feasible and for which long lead-times and extensive research and development are required, include :

- Geothermal energy, which uses the natural heat of the earth to produce steam for electric turbines, is now contributing modestly to power generation on the West Coast.
- Magnetohydrodynamics, which generates power by forcing electricity-conducting gas through a duct at high speed in the presence of a magnetic field, is still in the first experimental stages, and already evidences problems of disposal of seeding material.
- Ocean and tidal power, which harness the temperature and height differentials of the ocean to produce power to turn turbines, are basically in the experimental stage -- although one tidal generating facility has been operating in France for a number of years.

## Solar energy

The earth receives annually in solar radiation about 35,000 times its present yearly consumption of energy.

It has been suggested that huge solar-cell panels, like those now used in spacecraft, be ferried into orbits around the earth. The panels would generate electricity and relay the power by microwave to collectors on earth.

More likely to be practical are schemes to trap the sun's heat through specially treated glass tubes spread over miles of desert space.

But, while solar energy is already used on a small scale in a dozen countries (hot water heaters, etc.), the technology to utilize solar energy on a large scale does not presently exist.

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But let me bring you back to 1974 again with a sobering thought. Whatever our future energy sources will be, they will all involve money -- lots of money.

This, of course, brings me to the question of profits. You've undoubtedly read about record earnings listed by many of the oil companies this past year. Let me make some comments about that.

First, of course, some of us can't help feeling that somehow the rules have been changed while we weren't looking. Once upon a time, the name of the game was making a profit. Now, it almost seems a dirty word.

Second -- and more seriously -- I'd suggest we take a closer look at oil company profit. If you do, you'll discover that much of it was made abroad, and therefore the U.S. consumer didn't contribute to oil-company profitability to anything like the degree most people think.

Third, even our overseas profits are to a considerable degree paper profits. By this I mean that the dollar was weak in 1973, so that profits were higher -- on paper -- when we translated our profits in francs, marks, yen, and other currencies into dollars.

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Now that the dollar is strengthening, our dollar profits on overseas operations are liable to be less. But I think you'll agree we have problems explaining this one to the man in the street.

Fourth -- and most important -- it's important to remember that oil is an industry that largely finances its own capital investment. A substantial portion of our profits are plowed back into facilities for finding, producing, transporting and refining oil. As Mobil pointed out in an ad in the New York Times, we spent three months' profits in one morning -- over \$270 million in a federal lease sale for acreage in the Gulf of Mexico -- just for the right to look for oil. If we are to find the tremendous sums of money needed to develop the new energy sources I've outlined, you should be worrying, not that our profits are too high, but whether they're high enough.

11/26/74

Divorcement

SLIDE PRESENTATION

Divorcement -- breaking up the oil industry into separate companies -- has been suggested as a way of improving its competitiveness in the national interest. Of course, it would't work -- Mobil hardly makes any money on its refining operations, and a separate refining company would make no sense. Only fully integrated companies -- with interests in production, refining, and marketing, can amass the amounts of capital and manpower necessary to do the job of providing the U.S. customer with the products he needs at a reasonable price.

CONCLUSION



Excess profits tax

There are precedents for an excess profits tax. They have been clamped on U.S. business three times since 1917, but in every case the tax was levied on almost all corporations in order to help pay for a war. Never before has the nation debated imposing our excess-profits tax on a single industry in peacetime.

The argument for an excess profits tax is that no company should profit abnormally from a national crisis. But this involves an arbitrary decision about that is "normal". The oil industry contents that its 1969-1972 earnings were subnormal. Historically, writers of excess profit tax laws have riddled them with exceptions that have made administration of the tax virtually impossible.

Even advocates of an excess profits tax would not want to deprive the oil industry of the funds it needs to drill wells, and build refineries. But this would provide a loophole that could be widened indefinitely.

Finally, an excess profits tax would encourage companies to dodge it by wasteful expenditure.

Profits /

## Foreign tax credit

### Background

Under U.S. income tax law, U.S. corporations are taxed on worldwide income. Consequently, the problem of double taxation arises when these corporations pay taxes in other countries. Some countries exempt from taxation foreign income earned by their citizens and corporations. The U.S. grants foreign tax credits to alleviate the problem.

Simply stated, the U.S. law gives a dollar-for-dollar credit for foreign taxes paid on foreign income. The corporation pays to the U.S. Treasury the difference between the U.S. tax the corporation would otherwise have paid and the foreign tax paid. The taxpayer may not claim foreign tax credit against income derived from U.S. sources.

### Points at Issue

The U.S. could abandon foreign tax credit and instead allow deductions for foreign taxes. This, however, would mean that foreign income would be taxed at a higher rate than U.S. income. For example:

Company A pays \$2 million a year tax in the U.S. and \$1 million overseas. Total U.S. tax under present system is \$1 million.

If a deduction (say 50%) were allowed, total U.S. tax would be \$2 million less 50% of \$1 million -- equals \$1.5 million.

### Mobil Position

All industrialized nations avoid double taxation of foreign-source earnings by allowing foreign tax credits or by exempting foreign earnings from tax. If the U.S. were to abandon this concept, it

Foreign tax credit (cont.)

would in effect be taxing foreign income at a substantially higher rate than income earned in the U.S. As a result:

- U.S. business would become less competitive with foreign-owned business.
- U.S. business would have to surrender foreign markets to foreign-controlled business.
- U.S. business would lose incentive to search for natural resources outside the U.S., and U.S. dependence on foreign-controlled production would increase.
- Costs to the U.S. economy would increase because profits on foreign operations would accrue to foreign interests.

In summary, the foreign tax credit supports the creation of foreign markets that otherwise would not be available for American goods, and thereby actually creates more American jobs.

## National oil company

The establishment of a national oil company has been advocated basically as a means of "keeping the companies honest". Such a company, so the argument goes, could determine for everyone to see what was involved in oil-company exploration, production, and marketing.

First, let me say we don't see a need for such a company. The government already has the power to keep the companies honest by its ability to get whatever figures it needs. Also, we provide figures to state governments on our production operations.

Second, I don't know where a national oil company would get its skilled people -- unless it could pirate them away from the big oil companies. And if it doesn't do that, I think I can guarantee that the private oil companies will outperform the national company.

X

Percentage Depletion

Background

Percentage depletion is a federal income tax deduction allowed to owners of mineral interests. The statutory percentage rates range from 22% (for over 40 minerals including oil and gas) down to 5% for minerals which are more plentiful and require little exploratory effort.

Percentage depletion based on the value of minerals at the time of production -- rather than at the time of discovery as previously -- became law in 1926. The rate for oil and gas was set at 27<sup>1</sup>/<sub>2</sub>% to yield deductions comparable to those under the discovery provisions. This rate remained until it was reduced to 22% by the Tax Reform Act of 1969.

Mobil Position

Percentage depletion has contributed to the development of U.S. petroleum reserves and to low wellhead prices for oil and gas.

It has, however, been the subject of heated debate in recent years. During this time, pricing and other regulatory developments have made percentage depletion increasingly ineffective.

In these circumstances, Mobil believes that percentage depletion could be phased out -- if its elimination would avoid the need for the so-called "windfall profits" tax and achieve a reasonable environment for private enterprise in a free energy market.

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Percentage depletion (cont.)

In such an event, we believe Congress should make reasonable provisions for those who acquired property and made investments in reliance on a provision that has been the law of the land for nearly 47 years; retain percentage depletion for oil and gas that remains subject to U.S. price control; and enact appropriate provisions to attract the necessary investments to assure the U.S. a greater self-sufficiency in energy.

## Profits

Mobil's profits, and those of other oil companies, are in any case not as great as they seem. The following should be borne in mind :

- Devaluation of the dollar meant that foreign currency earnings are higher when expressed in dollars. In the fourth quarter of 1973, for example, about \$150 million of our \$268.6 million earnings improvement resulted from conversion of foreign currency profit and loss statements into a weaker 1973 dollar. Since the dollar has recently strengthened in the international marketplace, we would expect earnings, expressed in dollars, to decrease in 1974.
- Profits included general product price improvement in the foreign area and higher chemical earnings.
- Return on shareholders' equity -- one of the best yardsticks for measuring profitability -- is still below that of the average rate for manufacturing in the U.S. (estimated at 10% in the fourth quarter of 1973), compared with \_\_\_% for the average of manufacturing companies.

Companies' profits growth in 1979 was an 8.5 per cent increase. Earnings-growth comparisons of 1979 with the four-year 1975-1978 period are usually bad news, with 1979 a negative variable appearing for almost all companies. According to the Chase Manhattan Bank, which regularly does a financial analysis of 57 leading oil companies, the combined net earnings of these companies increased by 7.1% a year in the last 10 years, and by less than 1% a year in the last five. When the share price in this year's market is taken into account earnings growth of 4% for the combined 57 oil companies, the average year-to-year growth for the 11-year period works out to 8.1%. This is hardly a sensational growth rate.

Moreover, the rate of return for the Chase Group fell to 9.7% last year -- the lowest rate since the recession year of 1973. This is barely above the return on utility bonds or treasury bills.



Rationing / higher taxes /  
higher prices

We hope that rationing of gasoline can be avoided. It may be the fairest method to adopt if supplies become tighter, but the resulting bureaucracy would impose a heavy burden on the country, and would encourage black market activities.

We are against higher taxes as a method of curbing demand, since such a policy would discriminate against lower income groups.

Of course, we do need higher prices, not so much as a method of curbing demand, but to provide us with the capital needed for further investment.

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"Utility" status

It is a widely held belief that the oil industry in the United States will eventually become the equivalent of a public utility. We believe it is in the interest of the United States, and particularly of the U.S. consumer, that the oil industry be free to operate as far as possible as it has historically operated -- as a group of efficient, highly competitive companies.

To summarize. Much as we Americans like pat solutions, I'm afraid there's no single easy answer -- or even a single tough answer -- to the energy crisis. To alleviate it, we have to move forward on several fronts -- expanding exploration around the U.S., developing substantial shale and coal projects, building bigger, cleaner, more efficient refineries.

These are some of the ways in which we intend to relieve -- not contribute to -- the energy crisis. Not withholding supplies, but discovering, producing and marketing these supplies.

Meanwhile, we're practicing conservation wherever possible -- cutting back on energy in our own plants, keeping our employees and the public informed of ways to conserve energy, and talking to people like yourselves about the crisis and ways of coping with it.

Are there any questions?

## Corporate responsibility

Mobil recognizes as its major corporate responsibility the provision of goods and services to consumers. Of course, this role cannot be carried on for long unless a business can continue to earn a return on its investments.

Such a return allows a business to make broader contributions, as a corporate citizen. Return-on-investment, or profit, pays the bills as business undertakes social action programs.

Moreover, most businesses flourish when society does. For this reason, Mobil does undertake social action programs, concentrating on areas we know best -- environmental measures, specific aspects of racial and urban problems, and other fields relating directly to our business.

Law of the sea

Vast resources of oil and natural gas are at stake in the question of national jurisdiction over the resources of the ocean floor.

The area which appears to offer the greatest potential for supplying our projected petroleum needs is the submerged portion of the North American continent -- the U.S. continental margin.

The 1958 Geneva Convention on the Continental Shelf confirms that the exclusive jurisdiction of the coastal nations, over the seabed resources of the submarine areas adjacent to their coasts, extends beyond the territorial sea to a water depth of 200 meters "or, beyond that limit, to where the depth of the superjacent waters admits of the exploitation of the natural resources of the said areas".

While legal opinion of the meaning of this language varies, a sound legal interpretation is that the U.S. has exclusive seabed resource jurisdiction over the entire U.S. continental margin.

The U.S. government originally proposed international agreement on the relinquishment of all claims of national sovereignty over seabed resources more than 12 nautical miles from the coast. But other countries have insisted on border continental rights, and the U.S. is also now prepared to accept a broad coastal zone subject to various international standards.

Other topics /

## Lobbying

The word "lobbying" has unpleasant connotations for some people, but it is a valuable -- indeed essential -- part of our democratic system.

Lobbying is justified under the First Amendment to the Constitution -- we have the right to petition for the redress of grievances.

Some of our lobbying is just that: for example, a land-use bill before both Senate and House committees would seriously have affected our interests if it had gone through unchanged, since it would have adversely affected our refinery locations. We were able to explain our position, and Congressmen agreed that the bill in its original form would have discriminated against us. So we were able to get an amendment passed that greatly improved the bill and protected our interests.

A lobbyist also performs a vital function as an educator. Most Congressmen cannot afford the staff to keep up with all the complex fields on which they should be knowledgeable, and the lobbyist can be of real help in explaining the complexities of the energy business.

Lobbying (cont.)

For those of you who think that a powerful oil lobby is a dominant force in Washington, let me assure you that it isn't so. I think a glance at the record will show we have been singularly unable to get our views accepted against the environmentalists, for example, who have held up the Alaska pipeline, offshore drilling, and other essential measures for many years.

## Minorities in Mobil

I can tell you that we're doing quite a bit to recruit more blacks and other minority people to our staff, and to promote them to positions of responsibility as soon as we can. Of course, we're handicapped in one way -- there just are not enough qualified minority people to go around, and we find ourselves competing with other companies for them.

In 1973, about one in every five employees Mobil hired was a minority group member ( \_\_\_ out of \_\_\_\_\_ ).

We have initiated programs to track the progress of minority employees with potential for advancement.

In our recruiting efforts, we cover 26 traditionally black colleges.

Other topics /



## Mobil and the Arts

Mobil does support various ventures in the arts, because we believe that corporations, as well as individuals, have a responsibility to enrich society. We believe further that when society flourishes, so does business.

Our major effort, as you know, is Masterpiece Theatre, which has brought good television home to thousands of people in the past four years. Audience ratings and our mail indicate a large and appreciative audience for these shows, and we're proud to be associated with them.

Mobil in Angola

Mobil has had a small marketing operation in Angola for the past 60 years. Local law prohibits companies from keeping records on the basis of race, but I would guess that about 25-30% of our 170-odd employees are black. We have both black and white Angolan supervisors, and there is complete racial equality in hiring and salary levels. Working facilities are completely integrated.

As with our South African operations, we believe no good would result -- quite the reverse in fact -- if we were to withdraw from Angola.

... the basic capital needed for investment. We also help develop national infrastructures through the training of personnel. In this way, we help create a core of middle-class managers and skilled workers, who are the best assurance for national stability.

To cite specific examples:

- Training and teaching programs for foreign employees in Mobil's overseas operations contribute the equivalent of a school with at least 1,000 students in continuous operation.
- Mobil affiliates help thousands of employees to own their own homes, and support such non-company facilities as roads and harbors.

Other topics /

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## Mobil in South Africa

Mobil has conducted business in South Africa since 1897. We presently market petroleum products there through Mobil Oil Southern Africa, and operate a refinery in Durban through Mobil Refining Company.

In 1972, following discussions with the United Church Board of World Ministries, we published a report to our stockholders giving details of our South African operations -- including the number of white and non-white employees in each salary group, salaries over a 10-year period, and benefit plans.

Comparison with other company programs shows that Mobil is one of the leaders in providing opportunities for its non-white employees. Also, African leaders frequently tell us that we can do more for non-whites by remaining in South Africa and raising living standards there, rather than divesting ourselves of our operations in response to U.S. domestic pressures.

Other topics /

Business with the Soviet Union  
and China

We are looking for opportunities to do more business with China and the Soviet Union, in any area which might be profitable. Of course, any operations we undertake would be consistent with U.S. government policies.

Other topics /

## Multinational companies

Mobil is one of the biggest multinational corporations. For many years, we have been able to say that we performed a vital job in international commerce -- getting the right crude oil and products to the right customer at the right time. Because of our size and efficiency, we were able to perform this task in a way that no other type of organization could.

Now, of course, the scene is changing, and governments are playing a much larger role in the international scene. But it is still important to allow multinational companies to operate as far as possible as they have done.

For this reason, efforts like the Burke-Hartke bill -- which would repeal foreign tax credits, reduce imports, and limit the export of technology -- would not only hit the oil companies, but the country as a whole.

The bill would hurt U.S. stockholders by reducing corporate earnings available for dividends. If passed, it would sharply reduce earnings

. . . / .

Other topics /

Multinational companies (cont.)

from abroad now used for investment in domestic plants and equipment and would dry up U.S. markets in foreign countries, reducing U.S. exports and worsening unemployment here. It would trigger an international trade war and a worldwide depression.

## Political contributions

Mobil does not contribute to political candidates' campaigns. We do encourage employees to make personal contributions, or to work on their own time for the candidates or party of their choice.

We don't have any committee engaged in solicitation of funds within the corporation for contributions to local, state, or federal election contests.



## Problems with Media

Of course, we do have problems with the media. Most of the press, radio, and TV people we deal with are responsible people. But frequently they don't have the background to understand the complexities of the energy problem, and some of them are out to "get" the oil companies.

We ourselves are to blame for some of this. We should have been talking with newsmen in more depth way before the crisis developed -- but we didn't. As a result, we're really having to educate the press in a hurry, and it isn't easy.

We have gone to advertising in an effort to get our story out. We have problems even with this -- we can't put out "controversial" ads on TV, and the networks decide what's controversial. And we're accused of spending money to "brainwash" the public.

But we keep trying, and are doing our best to explain what the crisis is all about, and what we're doing about it.

U.S. flag vessels

Mobil believes it is in the national interest to encourage the development of a strong, competitive Merchant Marine fleet under the U.S. flag.

To do this, we have made some specific recommendations for amendment of the Merchant Marine Act. We have advocated that each importer of crude oil over water to the United States would be required to have under charter or ownership tankers of U.S.-flag registry of sufficient tonnage to provide carrying capacity equivalent to 10% of all crude imports of that importer into the United States.

This would provide protection for the U.S. consumer by insuring the lowest-cost U.S. flag petroleum transportation. It would help improve our balance of payments. It would provide opportunities for U.S. shipyards to develop their capacity for constructing VLCC class vessels. And, by tying the 10% requirement to deepwater port construction, we would provide incentive for building of these facilities.

Other topics /

Women in Mobil

Mobil is committed to promoting more qualified women into managerial positions. Of course, we are limited in what we can do by the fact there are very few qualified women in some of the technical aspects of our business -- although we do have several women chemical engineers on our staff.

But we have had women in executive positions for more than 15 years. Since 1971 we've had a Personnel Development section which helps management upgrade all personnel -- particularly women -- into more responsible jobs. We're including more women in management education courses, and we're holding seminars for managers in the field to help them expand opportunities for women.

Today I'm going to talk to you about the energy problem -- what it is, what it isn't, how it came about, and where we go from here.

Of course, we are all involved in the problem, in one way or another. We're asked to turn down our thermostats. We're paying more for gasoline -- and sometimes being forced to line up to get it. We're having to drive more slowly -- and less often.

For some people, these are minor sacrifices. For others, they add up to drastic changes in lifestyle. But, for everybody, the energy problem is a drain on the pocket book and -- perhaps even more important -- it's a shock to us as a nation accustomed to an abundance of just about everything.

As a result, many people have begun looking around for villains. They shout at the service station attendants who hang out the "no gas" sign. They blame Washington, the Arabs -- and the oil companies. They even say that there really can't be a genuine crisis, and that the oil companies -- either with or without the government -- have contrived the whole thing to jack up their profits.

To get at the facts, I suggest we start by getting rid of some of the emotionalism we all feel. Instead of a crisis, let's talk

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Slide talk /

about a shortage. Less petroleum than we need for all the activities that were traditionally reliant on petroleum.

How did this shortage come about? The newspapers and television reports give the impression that it happened overnight. But the shortage has developed gradually. We've all contributed to it.

Let's begin by seeing how our consumption of crude oil in the U.S. has gone up in recent years.

(Slide 1 - U.S. demand growth 1960 - 1973)

To be more specific, let's look at the demand for gasoline over the same period.

(Slide 2 - Growth of gasoline demand 1960 - 1973)

And here is how the demand for heating oil has risen in the same period.

(Slide 3 - Growth of heating oil demand  
1960 - 1973)

During this period, U.S. production has not increased significantly. Here's how production stacks up against rising consumption.

(Slide 4 - U.S. supply/demand 1960 - 1974)

As you can see the gap has grown wider and wider.

Up to a few months ago, not many people in the U.S. were too much concerned about this increasing gap. We still had all the energy we wanted at very reasonable prices. As a result, we took our energy supplies for granted. And -- to put it bluntly -- we wasted energy. We insisted on larger cars than we needed -- cars that gulped great quantities of gasoline. We put air conditioners in our cars, further cutting our gas mileage. We used our cars when we might have joined car pools or taken a bus or train.

And it wasn't just cars. Even a small lawn had to have a power lawn mower. We had electric tooth brushes, electric hair dryers, electric power saws -- all high energy users. We kept our houses five to ten degrees hotter than Europeans.

There was nothing unethical in any of this. It all seemed so practical. We were living in a fool's paradise, and we didn't know it.

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Slide talk /

In May 1972, Mobil ran an advertisement in the New York Times on "the gap" -- that is, the gap between static supply and rising demand. Others in the oil industry were aware of the gap, but neither Washington nor the public felt any similar sense of urgency.

(Slide 5 - Mobil ad "The Gap")

Briefly, we suggested a number of ways to help close the gap -- intensified drilling for oil in U.S. coastal waters,

(Slide 6 - Offshore rig)

construction of the Alaska pipeline,

(Slide 7 - Pipeline stacked in Alaska)

development of synthetic oil and gas from coal and shale, and building of nuclear power plants.

The ad made it clear that these solutions had been delayed in some cases by soaring costs, but in all cases by environmentalist pressures. In other words, the U.S. public believed that it could still have all the oil it needed and still afford the luxury of indefinite

delays in development of new energy shortage. Not that Mobil wants to pollute the atmosphere, the water or the landscape generally -- but we have recognized the need for intelligent choices that would give us the energy we need at acceptable costs.

As our ad pointed out, the only way we could enjoy the energy we needed without making hard domestic choices was by increasing imports. According to the projections everyone was making in 1972, we would be relying on foreign oil for half of our consumption by 1985.

(Slide 8 - Projected imports by 1985, with  
amount coming from the Middle East)

As you see, a major portion of these projected imports would have had to come from the Middle East. But, as we asked in our May 1972 ad :

"How much of our petroleum supply can come from abroad before we become dangerously dependent on sources that can be shut off as the result of foreign political or economic pressures?"

Well, in 1973 everyone knew the answer. There was the 18-day war in the Middle East, and the Arabs cut off oil shipments to all unfriendly nations -- among them, the United States -- in an effort to influence



world diplomacy in their favor. Most western nations, more dependent on Arab oil than we, quickly adjusted their Middle East policies. But even partial cutbacks in their oil shipments had major repercussions in countries such as Britain and Japan. For the United States, the message was clear: no oil would be forthcoming until the Israelis relinquished the territories gained in the 1967 war.

But even without an embargo, the United States will continue to face problems over Middle Eastern oil. For one thing, the Arabs have learned that their oil may be more valuable in the ground than in the marketplace. It is therefore unlikely that we will ever get the greatly expanded Middle Eastern imports which we used to project as necessary to fuel our expanding economy. And it's not only a question of volume, it's now a question of price, and Middle Eastern crude oil prices have absolutely skyrocketed in the past year.

So the question is: Where do we go from here?

As you know, President Nixon has set a goal of making this country sufficient in domestic energy by 1980. This is a worthy goal -- but an unrealistic one. No one I know in the oil industry thinks it is attainable. Not unless the country is willing to undertake a crash program for energy similar to the effort expended at the time of a major war.

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Slide talk /

Frankly, I'm not sure that the American public is ready for such an effort -- an effort surpassing even the Apollo moon program in cost and intensity. It would require tens of billions of dollars. And it would definitely call for compromises on conservation and environmental controls.

But there are things we can do -- in the next ten years, in the years after that, and in the next century -- first, to live more comfortably, and then to assure ourselves of the energy we need.

In the short term, we must emphasize conservation. Already, we are seeing a trend to smaller cars. People are becoming concerned about the way their homes are insulated. Industry is beginning to conserve fuel.

(Slide 9 - Mobil publications)

As you see, Mobil has some ideas on these subjects, and I have copies of these pamphlets if you would like them.

Extension of offshore drilling is also a necessity if we are to increase domestic production. Until now, we have been prohibited from drilling in many promising areas because of environmental restraints. However, there are many areas -- such as the waters off the East

Coast -- that apparently contain sizeable deposits of oil. And we currently have the technology that could claim this oil -- utilizing almost no risk of polluting coastal beaches.

By adjusting our priorities, we would not ignore the environment -- any more than we can afford to ignore our energy needs. Instead, we would be attempting to balance the two needs -- that of clean air and ample energy supplies. Construction of the Alaska pipeline, which has been held up until recently by environmental fears, involves such a balance. So does the construction of deepwater ports, which can be built easily and economically through use of single point moorings far out at sea.

(Slide 10 - SPM system)

As you see, such a system can bring the biggest vessels to U.S. waters at minimum cost to the consumer, with minimal danger of pollution.

If we are looking to the period between 1985 and 2000, some other solutions are possible. The U.S. has reserves of coal and oil-bearing shale which could keep us supplied with energy for hundreds of years, and the technology to produce oil and gas from these

sources is already well beyond the pilot-plant stage.

(Slide 11 - Shale)

Here, for example, is a shot of the Piceance Creek area of Colorado, where the largest shale deposits so far have been located.

If we look into the next century, there are other possibilities -- solar energy captured by huge solar-cell panels in orbit around the earth -- nuclear fusion which could produce clean, cheap, and virtually inexhaustible energy supplies.

(Slide 12 - Solar mirror)

Here is a picture of a solar mirror in France, which may show the shape of things to come.

But let me bring you back to 1974 again with a sobering thought. Whatever our future energy sources will be, they will all involve money -- lots of money.

This, of course, brings me to the question of profits. You've undoubtedly read about record earnings listed by many of the oil

companies this past year. Let me make some comments about that.

First, of course, some of us can't help feeling that somehow the rules have been changed while we weren't looking. Once upon a time, the name of the game was making a profit. Now, it almost seems a dirty word.

Second -- and more seriously -- I'd suggest we take a closer look at oil company profit. If you do, you'll discover that much of it was made abroad, and therefore the U.S. consumer didn't contribute to oil-company profitability to anything like the degree most people think.

Third, even our overseas profits are to a considerable degree paper profits. By this I mean that the dollar was weak in 1973, so that profits were higher -- on paper -- when we translated our profits in francs, marks, yen, and other currencies into dollars.

Now that the dollar is strengthening, our dollar profits on overseas operations are liable to be less. But I think you'll agree we have problems explaining this one to the man in the street.

Fourth -- and most important -- it's important to remember that oil is an industry that largely finances its own capital investment. A

substantial portion of our profits are plowed back into facilities for finding, producing, transporting and refining oil. As Mobil pointed out in an ad in the New York Times, we spent three months' profits in one morning -- over \$270 million in a federal lease sale for acreage in the Gulf of Mexico -- just for the right to look for oil. If we are to find the tremendous sums of money needed to develop the new energy sources I've outlined, you should be worrying, not that our profits are too high, but whether they're high enough.

To summarize. Much as we Americans like pat solutions, I'm afraid there's no single easy answer -- or even a single tough answer -- to the energy crisis. To alleviate it, we have to move forward on several fronts -- expanding exploration around the U.S., developing substantial shale and coal projects, building bigger, cleaner, more efficient refineries.

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