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There is a general belief that oil companies are making large profits even after the price of crude has been raised to what it is now. There is also an effort to curb these profits by government taxes. MIKE STEKETEE writes

Money in the barrels

Ten months after US President Carter proposed a tax on the 'windfall' profits of oil companies, Congress is still struggling to give birth to the legislation.

In the meantime, oil prices have risen by almost 50 per cent together with the value of US oil companies' own massive reserves of oil, not to mention their profits.

America may be the hemo of free enterprise but when Exxon reported a profit of 55 per cent above the 1978 figure — at the same time that motorists were paying the unthinkable (for the US) price of $A1 a gallon for petrol emotions were aroused.

Not least of the reasons is the formidable lobbying power of the oil industry, which has dollars to spare for public relations.

The companies say they need the extra profits to spend on more exploration for oil so that the US and the rest of the Western world can be freed from the shackles of OPEC.

There is some substance to this argument.

According to the Congressional Budget Office a windfall profits tax would result in 190,000 to 455,000 barrel a day less production by 1985 (the range depends on which version of the bill is adopted).

While this is not a huge amount compared to total domestic production in the US of around 7 million barrels a day, by any other standards it is a lot of oil.

The companies argue that the energy crisis is so severe that the world cannot afford to do without this oil.

Hence, they say, their large profits are justified.

Each turn of the price screw by OPEC has seen the same argument by the oil companies. The true cost of oil is the cost of replacing a barrel of it, they say. As though magically, the replacement cost seems to rise in line with the OPEC price.

In fact, the earnings of the oil companies have been rising faster than their ability to spend more on exploration.

Studies made of 15 major US oil firms show that, in 1974 they had $A19.7 billion available in cash and reinvested more than 80 per cent.

In the first nine months of last year, they had $A23.9 billion in cash (equivalent to $A31 billion for the full year) and reinvested 59 per cent.

The reason is clear: the companies simply cannot spend the money quickly enough.

'The biggest overriding thing holding us back is the lack of places to do exploration.' Mr Ulysses J. Le Grange, controller of Exxon, said in an interview last year. As well, there is a shortage of rigs and other equipment needed for exploration.

In the meantime, the industry has been looking for other avenues for its money.

According to a study by the US Treasury, between 1971 and 1978, 44 US oil companies spent $A6.9 billion buying into other firms some, but by no means all, involved in energy. This represented 54 per cent of all such spending by the 1,500 manufacturing firms included in the Treasury survey.

The companies argue that this is only a temporary situation and that, within a few years, they will be reinvesting nearly all their money in exploration again But this assumes that oil prices will not continue rising at the rate of the last few years— an unwise conclusion to jump to, judging from the experience of the 1970s.

Of course, the object of the windfall profits tax proposed by President Carter is not merely to deny oil companies some of their profits.

He wants to spend the money raised to help the poor pay for their fuel bills, to develop synthetic fuels such as shale oil, and to pay for more mass urban transport.

In other words, the ultimate goal is the same as that professed by the oil companies: to make the US independent of Middle East oil.

The main difference is that the companies ultimately put their own interests ahead of the general public. For example Mobil in 1974 paid $A1.6 billion—$A727 million of it in cash—to take over a company which ran a chain of department stores This was hardly a contribution to solving the energy crisis.

There are many slips for the uninitiated between the public relations departments of the oil companies and the unvarnished truth. For example, we all know the oil companies are well off but how rich is rich?

One way to find out in the US is to multiply the amount of oil the US oil companies produce by the price they receive.

The result gives an annual revenue figure of $A15.4 billion for 23 major companies in 1978.

Assuming an average price of $A22 a barrel (which is on the low side, considering the latest round of OPEC increases), the same production now would be worth $A31.8 billion a year. At the same time, the value of the reserves of oil which these companies own has increased by $A285.4 billion.

Where it all began—Titusville in Pennsylvania, 1859, the world's first producing oil well.

Boggling as they may seem, these figures at least provide a reference point when looking at oil company profits.

Consider poor Exxon The world's largest oil company points out that while everyone seems to know about its $A3.9 billion profit last year few people realise that it put a good deal more money, $A6.2 billion, into oil exploration and other capital expenditure in the same year.

Does this mean that Exxon is plunging more deeply into debt or going broke, since it is spending more than it is earning? Not quite.

Financial analysts say the figure to watch is the company's total cash flow which includes depreciation and borrowing as well as profits —in other words, all the money it has available to spend

By this measure, the five largest American oil companies had a total of almost $17.2 billion in funds available in the first nine months of last year but reinvested only $A9.1 billion of it.

What happened to the rest? The companies paid out $A2.3 billion in dividends $A1.7 billion to buy other companies and kept $A2.5 billion in retained earnings ($A1.3 billion was spent on a miscellany of other items)

The windfall profits tax, in its present form before the Congress, will capture less than half of the extra profits the oil companies earn as a result of OPEC oil price increases.

Considering that the companies presently are earning money faster than they can spend it, the level of exploration in the US, which has been rising since the early 1970s is unlikely to be affected drastically.