Oil and Taxes: Some Facts that may surprise You.

Part 1: Just How Profitable is Oil?

To understand the apparent contradiction between making money and being profitable, consider the following:

- Mobil earned $1.38 billion. But to do so we had to sell 11 billion gallons of gasoline.
- Plus 8 billion gallons of distillate.
- Plus over a trillion feet of natural gas.
- Plus thousands of other products.
- Our profit on each dollar of sales was not 62 cents as most people questioned in a recent survey thought.
- It was not even a quarter, or a dime, or a nickel.
- It was just over 2 cents worldwide…

An even more basic measure of profitability is the rate of return on shareholders’ equity. A Company, after all, is in essence a legal entity that invests shareholders’ money in the hope of earning those shareholders a profit.

- Mobil’s return on shareholders’ equity was 9.4%. The average return for all manufacturing industries was 11%.
- In earlier years, return on shareholders’ equity in the oil industry varied, sometimes higher, sometimes lower than for other industries. But over the full period 1968 to 1981, oil’s median rate was 14.3% trailing all manufacturing’s rate of 14.%.
- In most years, oil companies have been less profitable than pharmaceuticals, cosmetics and soap and even newspapers and broadcasting…

Part 2: Are Oil’s Rewards worth today’s risks?

The problem is that the risks are greater than they used to be and rewards are smaller. As simple as that. Consider the way risks have grown:

- The first production platform built for Mobil and its partners in Norway’s North Sea cost $1.4 billion. The second cost $2 billion and the third will cost an estimated $2.1 billion.
- Mobil and its partners spent $865 million to lease 15 tracts in Alaska’s Beaufort Sea -- with no guarantee that oil gas would ever be found.
- A new seismic vessel, the ultimate in technology, cost us $40 million.
- Mobil and its partners paid $650 million for permission to drill in the Destin anticline off the Florida Coast but found nothing.
- The Baltimore Canyon, off New Jersey, ate up $1.5 billion of the oil industry’s money without providing enough natural gas to justify commercial production.

What is the reward for a company in such a risky business?

- Mobil’s reward was just over 2 cents on each sales dollar. In our best year, we made less than 4½ cents on the dollar…

Part 3: Who pays oil taxes? You, one way or another.

- Scenario 1: Assume taxes are passed along.
- The consumer pays oil’s taxes. Most people don’t realize it, but out of the price of every gallon of oil products – gasoline, heating oil, chemical feedstocks and all the others --- 12 cents goes to
government: 8 cents to cover the so-called “windfall profits” tax on domestic crude oil production and 4 cents for U.S. state and federal corporate income taxes. For gasoline, the consumer will soon be taxed 33 cents a gallon – the 12 cents plus a 4 cents excise tax not assessed by Uncle Sam (to be raised to 9 cents April 1st) and an average 12 cents by the states. But that 33 cents doesn’t begin to tell the story. The consumer also foots the bill for payroll taxes, severance taxes, gross receipts taxes and other hidden levies. So, every gallon of oil products you buy means you are shouldering a heavy tax burden.

- The Economy pays: Those hidden and visible taxes on oil feather right up through the economy. When taxes make oil more expensive, industrial users like chemical, auto and agribusiness companies try to pass along to their consumers the added costs, fueling new inflation. U.S. companies doing business overseas are rendered less competitive, causing U.S. export earnings to drop. Unemployment results as it does when higher – taxed oil causes domestic business to lose their competitive edge at home against foreign producers.

- Stockholders lose. And we don’t mean cigar chomping moguls. Over three million people own stocks in 16 large oil companies. Their median age is 63. More than half are non-working women. Four out of ten are retired. Nearly half of those aged 65 and over, have incomes of less than $25,000 a year. And those directly investing in oil are only the tip of the iceberg. Over 80 million Americans own stock in the 16 companies indirectly through life insurance, pension plans, and mutual funds, or by sending a son or daughter to a college whose endowment includes oil stocks...

Part 5: Time to Cry Hard Astern on Oil Taxes

- Today’s falling oil prices have been hailed as a spur to recovery, and another nail in inflation’s coffin. Higher oil taxes would cut into these benefits. They would also weaken an industry which has to spend billions today to provide energy for tomorrow.

It's been said that nothing is certain but death and taxes. We would add a third certainty:

Unwise Tax Policy hastens demise, and that’s as true for nations as for individual businesses or industries.

(List of Congressional representatives to Contact)