

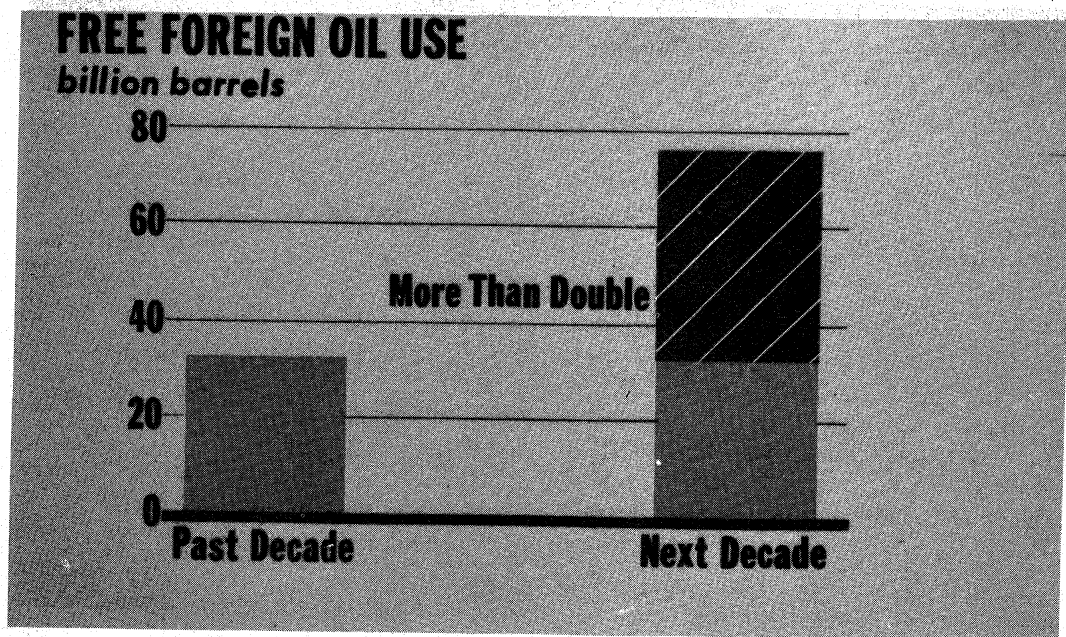


CHART 66

The improvement in the domestic return reflects, primarily, the modest increase in the price of natural gasoline. The decline in the rate of return abroad reflects a number of factors. Of great importance is the increasing demand on the part of governments in the producing countries abroad, those demands for a larger share of the earnings resulting from these operations. Also, there is intense competition, particularly in Europe.

There has been price erosion, and that, too, has been a factor in bringing down the rate of return.

Now, placing ourselves in management's position, what are we likely to do? We are pulled in two directions, as we can see from these two economic factors. We might expect that the industry would spend more in the United States progressively and less abroad, because you can see for a period of years the return has declined abroad and has increased in this country, but the industry has not reacted in this way.

We have seen the expenditures in 1966, \$6.8 billion being spent in the United States and \$7.6 billion being spent abroad. The increase in spending in 1966 amounted to \$450 million in the United States and the increase abroad amounted to \$759 million. This continues the trend that has been evident for a number of years. Progressively, the increase has been more and more money abroad.

We have found that industry has utilized its capital funds in 1966 so that 37 percent was used for production purposes; 28 percent for processing, refining and petrochemical plants; 17 percent for marketing; 14 percent for transportation, and 4 percent for all other purposes.

The amount of the money that the industry has utilized for production purposes has steadily declined, dropping from a high of almost 65 percent a decade ago. This, of course, reflects to a major extent the withdrawal of the independents, from this market.

What is the independent doing with his money?