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Big Oil-- Big Deals, Big Profits

Washington

Senators and witnesses at a congressional investigation of international oil corporations told yesterday of an intricate pattern of financial dealings dating back a quarter century that gave the companies the privileges that have led to enormous profits.

The scenario included investments in the Middle Eastern oil producing nations, complicated tax and royalty payments to these countries, offsetting credits against U.S. taxes, and a secret cabinet - level decision in 1950 to allow the tax switches.

As outlined in the testimony yesterday, the tax switch allowed, and initially even encouraged, the companies to pay taxes in the form of oil royalties to petroleum-producing nations. This, in turn, gave the companies credits against their federal tax returns allowing the corporations to realize higher after-tax profits.

Congressional investigators also released copies of cable traffic three years ago between the London Policy Group, a combine of oil companies, and its New York advisory committee indicating that the tax credits were of extreme importance to petroleum negotiations in Libya and Iran.

While what took place was not illegal, several senators indicated that the effect of the various transactions was that agencies of the federal government and the petroleum corporations cooperated to set policy for the betterment of industry.

Much of yesterday's testimony dealt with the international tax aspects of the petroleum industry, future domestic supplies and prices, with the outlook generally gloomy.

But Senator Frank Church (Dem - Idaho), who is chairman of the Senate foreign relations subcommittee on multi - national corporations, hinted about further disclosures before a standing - room - only crowd in the hearing room.

He said, for example, that during closed testimony on Monday George C. McGhee, a former oil producer and assistant secretary of state for near eastern affairs from 1949 to 1951, said that "the Treasury Department, in the summer of 1950, at the urging of the Department of State, agreed to a system in which the companies would increase their payments to the oil producing governments, and the American government would permit them to reduce their U.S. tax payments correspondingly."

"Wall Street lawyers were sent to the Middle East to help these countries rewrite their laws to bring them within the purview of the tax credit provisions of the United States internal revenue code," he continued.

Church said that the "result of this arrangement was to abruptly reduce the taxes paid by the companies to the U.S. treasury while dramatically increasing the tax revenues accruing to the oil producing governments."

He said the action was the "brainchild" of the National Security Council, and that it was "made in secret session" and "never legislated."

Church made public statistics stating that the Arabian American Oil Co. in 1950 paid federal taxes of $50 million, but only $6 million in 1951. Thus there was a drop of $44 million to the federal treasury the year the policy went into effect.

Yet, he said, the oil company in 1950 paid to Saudi Arabia $66 million and in 1951 this jumped to $110 million. Thus the gain to the Saudis was $44 million.

"The $44 million was transferred from the United States treasury to the Saudi treasury," the senator said.

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