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ENERGY INVESTMENT BANKING, LP

MUSINGS FROM THE OIL PATCH

December 13, 2005

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Managing Director

Note: *Musings from the Oil Patch reflects an eclectic collection of stories and analyses dealing with issues and developments within the energy industry that I feel have potentially significant implications for executives operating oilfield service companies. The newsletter currently anticipates a semi-monthly publishing schedule, but periodically the event and news flow may dictate a more frequent schedule. As always, I welcome your comments and observations.* Allen Brooks

Optimistic 2006 E&P Spending Survey

Worldwide E&P spending next year should increase by 14.7%

The investment banking firm, Lehman Brothers, released its 2006 E&P spending survey showing projected healthy increases globally that should underpin another active year for the oilfield industry. The broker has been releasing preliminary data over the past several weeks from its tally of the responses from 325 oil and gas companies surveyed, so the completed results did not deviate from the preliminary results. The key conclusion is that planned worldwide E&P spending next year should increase by 14.7% from $207 billion estimated to be spent in 2005 to $238 billion. U.S. spending is projected to rise by 14.9% to $57 billion, while spending outside of North America should climb by a similar percentage to $156 billion. In Canada, oil and gas companies are expecting to increase their spending by 13.3% to $24.7 billion.

Companies say they would not cut spending unless oil prices fell below $45 and/or if gas prices dropped below $6 to $6.50

The E&P budgets are based on an average oil price of $49.89 per barrel for West Texas Intermediate and $7.64 per million cubic feet of gas (mcf). Importantly, the companies indicated that they would not cut their spending unless oil prices fell below $45 and/or if gas prices dropped below $6 to $6.50. Based on current oil and gas prices and the forward strips for each commodity, these floors on spending increases would appear to be very safe.

Major integrated oil companies are becoming more active in the domestic market

In the survey responses, Lehman found some interesting trends. For example, it appears that the major integrated oil companies are becoming more active in the domestic market and most are budgeting increased spending in 2006. The increased interest reflects growing confidence in the sustainability of high natural gas prices and the increased opportunities for development of non-conventional gas resources. This growing interest may also be reflected by Monday's report that ConocoPhillips (COP-NYSE) is in discussions with Burlington Resources (BR-NYSE) about acquiring that company in a deal valued in excess of $30 billion. This rumor comes after ConocoPhillips announced a planned 45% increase in its capital spending budget for 2006.

Oil and gas companies overspent their 2005 budgets

It was no surprise that the oil and gas companies signaled that they had overspent their 2005 budgets in response to high commodity prices. Lehman estimates that 2005 E&P spending will be up 20.1% compared to the firm's mid-year estimate for an increase of 13.4% and the year ago survey of a hike of only 5.7%. However, the companies indicated that they are not likely to boost their spending this year if commodity prices remain at current levels.

Oil and gas companies cautioned the service industry that they would cut their spending if oilfield cost increases exceeded 20%

Oil and gas companies are very concerned about rig availability with 85% of respondents mentioning this as a potential bottleneck. Availability of other types of equipment was also mentioned as a problem, but since the rig is the most critical element of exploration, it comes as no surprise that this is the prime bottleneck. On the other hand, rig contractors and service companies have been taking advantage of the market tightness to boost day rates and service prices. The oil and gas companies suggest that they expect higher oilfield prices, with 53% of respondents anticipating prices more than 15% higher than this year. However, the oil and gas companies cautioned the service industry that they would cut their spending if oilfield cost increases exceeded 20%. (The oil and gas companies know that this survey is prepared to help Lehman analyze the outlook for the oilfield service and drilling companies, so they are delivering a message about pricing discipline.)

Based on this spending survey, and the early reports from oil and gas companies about their budgets, it looks like 2006 will be another banner year for the oilfield service industry.

North Sea Windfall Profits to Dent Activity

Britain's Chancellor Gordon Brown announced that he will raise the supplementary corporation tax on oil companies from 10% to 20%

What Democrats have yet to accomplish in the United States with a windfall profits tax on the oil industry, the Labor government is achieving in the United Kingdom. Chancellor Gordon Brown in his Pre-Budget Report last week announced that he will raise the supplementary corporation tax on oil companies from 10% to 20%, resulting in a GBP 2.3 billion estimated boost in annual oil industry taxes. The British government has proposed using this incremental tax revenue to fund an insulation and central heating program for retired UK citizens and to enable the government to freeze taxes on gasoline and diesel fuel.

According to Chancellor Brown, "The fact of the matter is that over the last two years, the oil price has moved from an average of $25 to $55. That has meant that the oil producers have had a huge increase in the profits that are available to them. The balance has to be struck between the consumers who pay for fuel and heating and the producers." The key issue for the government may be the reaction from the oil industry operating in the North Sea.

Capital expenditures in the North Sea are on track to reach GBP 10 billion this year, the highest amount since 1998

The UK Offshore Operators Association (UKOOA) said two weeks ago that total capital expenditures in the North Sea were on track to reach GBP 10 billion this year, the highest amount since 1998. Likewise, due to booming crude oil prices, taxes from the North Sea are set to reach about GBP 11 billion. That will change dramatically if the industry projections about the tax hike are correct; taking them to over GBP 13 billion.

Brown believes the North Sea is more resilient to tax hikes

The last time the North Sea oil industry was hit by a surprise tax hike was in 2002 when the corporate tax rate was increased by one-third. Following that tax jump, drilling and field development activity suffered. Will the same thing happen this time? Chancellor Brown thinks not. He believes that the North Sea is more resilient to tax hikes due to changes the government has made in the licensing system for exploration. The British government has worked with the industry to develop the fallow field and stewardship initiatives that have generated new investment in fields that have been left dormant for years. On the other hand, Malcolm Webb, chief executive of the UKOOA, told BBC Radio 4's Today show, "It [the tax hike] can only have a depressant effect on investment in UK oil and gas."

Malcolm Webb, in an interview prior to the Pre-Budget Report, pointed out that, "A third of the investment in the North Sea last year came from companies that have only been here since 1999 – that's quite impressive. What message do we send if we change the rules on tax at this stage in the game?" How the industry responds will be closely watched as there are many alternative geographic regions of the world that are competing for the drilling and field development assets working in the North Sea. According to Malcolm Webb, "They [the oil companies] are getting reasonable return for massive investment in the North Sea. Not one penny of public money has been spent in the North Sea. It is all private capital – GBP 330 billion has been spent in the North Sea to date. That does demand a reasonable return."

In November, there are 26 offshore rigs working in the UK sector of the North Sea according to Baker Hughes

In November, there were 26 offshore rigs working in the UK sector of the North Sea according to Baker Hughes. The recent leasing activity in the North Sea has been very active with a substantial number of new entrants. Will these new players be as keen to move forward in investing given the emerging attitude of the British government for siphoning off perceived windfall profits?

It's Different This Time – Deloitte

"We won't see prices below $40 a barrel in our lifetime"

The most dangerous expression in the investment world is the phrase, "It's different this time." According to Richard Woodward, the head of Deloitte Consulting LLP's U.S. oil and gas practice, "We won't see prices below $40 a barrel in our lifetime. We won't see prices below $48 and $45 in the next five years either." We haven't checked to see how old Mr. Woodward is, so we can't comment on the time frame of his projection.

Crude oil prices will be held up by the growing role of China in the world's economy

Woodward's conclusion is based on an analysis that the 1973 and 1979 oil price spikes were eventually driven down by the damage inflicted on developed countries' economies. As demand fell, producers also were bringing on new oil supplies in response to the high oil prices. This combination of demand destruction and additional supplies was deadly for crude oil prices. This time, Woodward believes, crude oil prices will be held up by the growing role of China in the world's economy. China's energy demand continues to grow as it urbanizes and expands its economy. On the other hand, China's increasing share of the world's manufacturing base has helped to keep inflation low in developed countries, helping to buoy those economies and their energy demand. As a result of China, according to Woodward, "History is not going to repeat itself." We'll see.

2005 Hurricane Season a Record; 2006 a Repeat?

The number of storms this year was equal to about the number normally experienced over a two-year period

The 2005 hurricane season, which ended November 30, set a number of records. The number of storms this year was equal to about the number normally experienced over a two-year period. But possibly more important than this year's records is that the early forecasts for the 2006 hurricane season reflect expectations of a continuation of this recent period of hyperactivity. Buried in these forecasts are some hopes that 2006, while likely to be another active hurricane season, will not be as severe as the past two years.

The hurricane season runs from June 1 to November 30 each year. Occasionally a storm may form before or after the season, and this year saw one form at the tail-end of the season on November 29. Hurricane Epsilon is now the longest running December storm on record with 10 days as either a tropical storm or hurricane before being downgraded on December 8 to a tropical depression.

2005 was the busiest and most costly Atlantic hurricane season on record

2005 was the busiest and most costly Atlantic hurricane season on record. In the 154 years of record keeping, this hurricane season set records for:

Most named storms (26; previous record 21 in 1933)
Most hurricanes (14; previous record 12 in 1969)
Most intense hurricanes hitting the U.S. (4; previous record 3 in 2004)
Most Category 5 storms (3)

Hurricane Katrina that devastated the Louisiana and Mississippi Gulf Coast region was the deadliest storm since 1928 with 1,300 people killed. The storm replaced 1992's Hurricane Andrew as the most costly storm in U.S. history with projected insured losses of $34.4 billion. The 2005 hurricane season was clearly the most costly season with insured losses of $47.2 billion versus the past peak of $22.9 billion in 1992.

Hurricane Wilma was briefly the most intense Atlantic hurricane on record. Its minimal central pressure fell to 882 millibars. It was also the fastest strengthening storm on record as top sustained winds increased to 105 miles per hour in its initial 24-hour time span as a tropical storm.

Forecast calls for 17 named storms and nine hurricanes in 2006

The leading hurricane forecaster, Professor William Gray of Colorado State University, unveiled in early December his 23rd yearly forecast calling for 17 named storms and nine hurricanes in 2006. This forecast is well below the level of storms seen in the recent season, but it still reflects another active year.

In Exhibit 1, we show the history of Professor Gray's forecast for the 2005 hurricane season and the actual results, along with his initial 2006 forecast. As one looks at the evolution of the 2005 forecast, it is evident how clarity on key weather variables caused the forecast to be adjusted upwards significantly over time. From December 2004 to the August revision, Professor Gray's forecast of the number of storms, hurricanes and intense hurricanes virtually doubled. The August forecast revision captured the early season storm activity, which had been intense. In contrast to many years, this year's storm activity began early in the season with the first storm, Arlene, emerging on June 9. By the start of August, we had already experienced a total of seven storms, about equal to the total number of storms experienced in non-active hurricane years.

Exhibit 1. 2005 Hurricane Forecast Record and 2006 Outlook

	12/3/04	4/1/05	5/31/05	8/5/05	9/2/05	10/3/05	Observed	2006 Forecast 12/6/05
Tropical Storm	11	13	15	20	20	20	26	17
Hurricane	6	7	8	10	10	11	14	9
Intense Hurricane	3	3	4	6	6	6	7	5

Source: Colorado State University; PPHB

Even though the forecasted storm activity for 2006 may be lower, there remain serious threats to the U.S. Gulf Coast and Southeast states

When Professor Gray released his latest forecast, he called for an 81% chance of a storm hitting somewhere on the United States coast compared to an average chance for the last century of 31%. The probability of a storm hitting the U.S. East Coast, including the entire Florida peninsula, is 64% compared to the historic average of 31%. For the Gulf Coast, from the Florida Panhandle to Brownsville, Texas, the probability of landfall is 47% compared to 30%. These percentages suggest that even though the forecasted storm activity for 2006 may be lower, there remain serious threats to the U.S. Gulf Coast and Southeast states.

In developing a forecast, Professor Gray and his forecasting team look at the history of hurricane seasons since 1949 for analogs to the weather conditions they are seeing currently and anticipate will be present during the hurricane season. We will not attempt to detail the weather forces, but they include considerations such as water temperatures and the presence or absence of the El Nino weather factor. For his 2006 forecast, Professor Gray found five previous years as analogs, but because he and his team believe that weather conditions will be slightly more favorable for generating storms, they have developed a forecast that exceeds the average of the five analog hurricane seasons.

Exhibit 2. Analog Storm Years for 2006

Year	Tropical Storm	Hurricane	Intense Hurricane
1961	11	8	6
1967	8	6	1
1996	13	9	6
1999	12	8	5
2003	16	7	3
Average	12.0	7.6	4.2
Forecast	17	9	5

Source: Colorado State University; PPHB

In the paper introducing Professor Gray's 2006 forecast, he addressed the issue of global warming and increased hurricane activity since it has become a major focus of the mainstream media. He believes there is no causal relationship. As he believes the study of global warming has become more important than hurricanes, Professor Gray is giving up the lead position on the hurricane forecast team to his current number two, Phil Klotzback.

There was a similar level of hurricane activity in the 15-year period of 1950-1964, a period of global cooling, compared to 1990-2004 when global warming was experienced

In the Atlantic basin, the 1995-2005 time period has experienced an average of four storms per year. This compares with the record of one and half storms per year for the period of 1970-1994. As Professor Gray pointed out, there was a similar level of hurricane activity in the 15-year period of 1950-1964 as in 1990-2004. The earlier period was marked by general global cooling while the most recent 15-year period has experienced gradual global warming. Therefore, Professor Gray concludes that global warming is not a factor that has impacted the recent increase in hurricane activity. Instead, he attributes the increase to the decadal increase in the strength of the Atlantic Ocean thermohaline circulation (THC), which is not related to global temperature increases. The driving force behind this variable is changes in ocean salinity.

Exhibit 3. Forces Impacting Hurricane Activity

Source: NOAA

Southeast coastal residents were lulled by the 38-year period of low hurricane activity impacting the region, so they were unprepared for the sharp activity increase in 2004-2005

Southeast coastal residents were lulled by the 38-year period of low hurricane activity impacting the region, so they were unprepared for the sharp activity increase in 2004-2005. Between 1966 and 2003, there were 17 hurricanes that impacted the Southeast, or an average of 0.45 storms per year. In contrast, for 1926-1965, there were 36 storms, or an average of 0.90 storms per year, or twice the rate of recent years. As one looks at the trend in hurricanes hitting the U.S., Professor Gray points out that for 1966-2003, the number of storms was below the long-term average, but the last two years were above the average. The primary reason for the higher percentage of intense hurricanes over the U.S. coast is due to favorable broad-scale Atlantic upper-air steering currents. However, the historical record and the laws of statistics suggest that the probability of another two consecutive years of above average hurricane activity is low. Despite that, the current active hurricane period for the Atlantic basin will likely continue for another 15-20 years. To prepare our readers for next year, we have listed the names selected for 2006 storms.

Exhibit 4. 2006 Hurricane Names

Alberto	Helene	Oscar
Beryl	Isaac	Patty
Chris	Joyce	Rafael
Debby	Kirk	Sandy
Ernesto	Leslie	Tony
Florence	Michael	Valerie
Gordon	Nadine	William

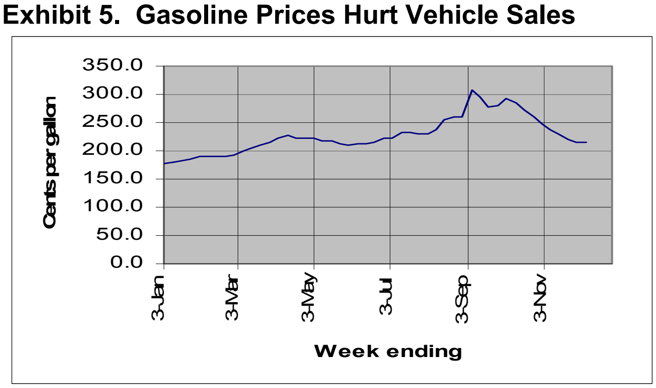
Source: NOAA

America's Love Affair With SUVs

As gasoline prices hit $3 per gallon following hurricanes Katrina and Rita, the demise of the SUV was widely expected

When gasoline prices soared during the height of the hurricane season, pundits began to talk about the impending end to the decade-long infatuation of Americans with the low-mileage sport utility vehicle (SUV). Sales of SUVs and pickup trucks were sagging at that time, while demand for smaller fuel-efficient vehicles was rising. As gasoline prices hit $3 per gallon following hurricanes Katrina and Rita, the demise of the SUV was widely expected.

Exhibit 5. Gasoline Prices Hurt Vehicle Sales



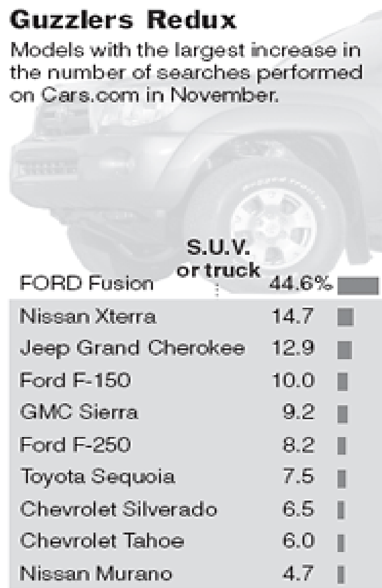
Source: EIA; PPHB

During the month of November all but one of the vehicles receiving the largest increase in web site searches were SUVs or pickup trucks

Now that gasoline prices have fallen to pre-summer levels, the Internet site Cars.com reports that during the month of November all but one of the vehicles receiving the largest increase in web site searches were SUVs or pickup trucks. Part of the reason for the increased interest is related to the significant increase in dealer incentives for these traditionally more profitable vehicles.

The largest search increase in November was experienced for the Ford *Fusion*, a recently introduced sedan that has received extensive media attention, so its interest can be easily explained. Given the results of the Cars.com survey, one can say: So much for gasoline prices changing America's love affair with the SUV.

Exhibit 6. Cars.com Web Searches



Source: Cars.com

Natural Gas Prices Killing Fertilizer Industry

Natural gas futures prices climbed over $15 per million cubic feet last week, dealing another blow to the health of the American fertilizer industry. The U.S. nitrogen fertilizer industry supplies about one-half of total U.S. farmers' nitrogen fertilizer needs. However, natural gas accounts for anywhere from 70% to 90% of the production cost of one ton of anhydrous ammonia. The rise in natural gas prices that began in 2000 has dealt one body-blow after another to the fertilizer industry.

Since 1999, 22 fertilizer plants in the United States have been closed

Since 1999, 22 fertilizer plants in the United States have been closed – 17 of them permanently. The permanently shuttered plants represent over 20% of total U.S. production capacity. With the additional five idled plants, over 35% of domestic ammonia production capacity has been idled. This has meant that domestic production has fallen from 18 million tons in 1998-1999 to less than 12 million tons in 2003-2004. Over this time period, the average U.S. ammonia production cost has doubled, and that was before the recent explosion in natural gas prices that occurred as early winter weather arrived in the Northeast and Midwest.

Traditionally, the domestic fertilizer industry supplies about 85% of domestic demand, but now 45% of demand is being satisfied by imported fertilizer

In order to meet farmer demand for fertilizer, imports have had to increase. Traditionally, the domestic fertilizer industry supplies about 85% of domestic demand, but now 45% of demand is being satisfied by imported fertilizer. U.S. nitrogen imports have grown from just over 6 million tons to more than 10 million tons. Both of these trends are likely to continue if natural gas prices remain at current levels, or go higher. To possibly reduce its exposure to high natural gas prices, some fertilizer producers are looking at pairing their plants with coal-to-liquids (COL) plants. Under this technology, COL plants first convert coal into a synthetic gas that is then converted into liquid fuels, such as a sulfur-free diesel, and high quality waxes. However, some of the synthetic gas stream could be diverted to fuel a fertilizer plant.

The first potential project to utilize COL technology for fueling a fertilizer plant may be the Rentech (RTK-Amex) purchase of a Royster-Clark (ROY_u-TO) facility in Illinois. We understand that Rentech has also held conversations with other fertilizer plant owners about similar projects. This concept could lead to a revival of the domestic fertilizer industry as COL would provide a stable, and now lower, price fuel option. While fertilizer accounts for only 3% of total United States natural gas demand, replacing natural gas with coal-generated gas could ease the projected long-term domestic gas supply shortage confronting this industry.

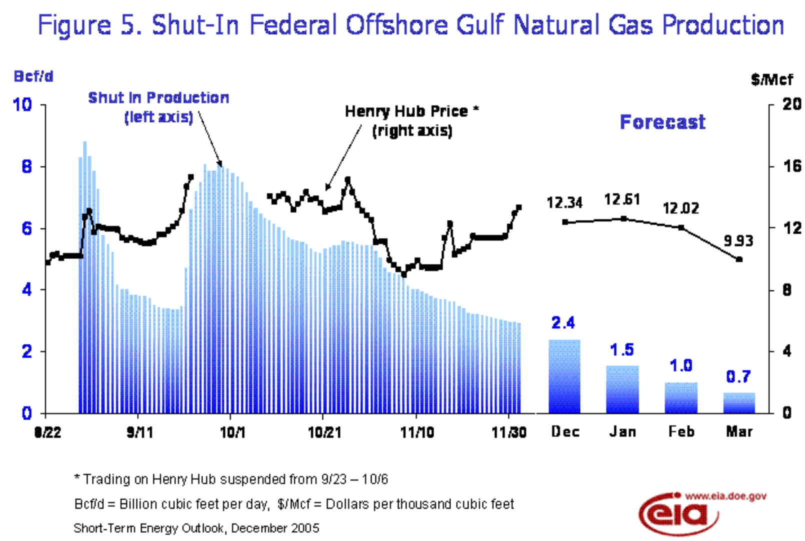
EIA More Optimistic On Gulf Gas

EIA projects a faster recovery for the hurricane-damaged Gulf of Mexico natural gas infrastructure

The Energy Information Administration (EIA), in its Short-Term Energy Outlook for December, projects a faster recovery for the hurricane-damaged Gulf of Mexico natural gas infrastructure. The EIA cites the innovative methods producers are employing to reroute their gas around damaged pipelines as key to their more optimistic outlook for the pace of the Gulf's gas supply recovery.

As a result of this more optimistic outlook, the EIA now expects shut-in federal Gulf of Mexico gas production to fall to 0.66 billion cubic feet per day (Bcf/d), or to about 6.5% of pre-hurricane Gulf production by March 2006. At the present time, Gulf shut-in gas production is 2.7 Bcf/d, or 29% of pre-hurricane Gulf production.

Exhibit 7. EIA December Gas Outlook



Source: EIA

The faster recovery of gas supply is projected to help ease gas prices

The faster recovery of gas supply is projected to help ease gas prices according to the EIA. They are now projecting that natural gas prices will fall from $12.61 per million cubic feet (mcf) in January to $9.93 in March 2006. For gas consumers who are looking at futures prices in excess of $15 per mcf, prices under $10 would be welcome relief.

A More Optimistic View of 2006 Tanker Market

2006 could turn out to be a fairly strong year for the tanker industry

Fearnleys, the tanker research firm, is suggesting in its November monthly report that 2006 could turn out to be a fairly strong year for the tanker industry. Their view is based on several factors at work in each of the crude oil and product tanker sub-markets. Included in these factors are a projected increase in crude oil and refined petroleum product demand, a shift in the geographic consumption of certain volumes of crude oil and petroleum products, the pace of recovery for the shut-in refining and crude oil production in the U.S., and tanker fleet growth.

The growth in demand in the crude oil market is projected to translate into a 2.9%, or 275 billion ton-miles (btm), increase in tanker demand in 2006. This demand growth arises from the expected increase in geographic consumption of crude oil and where that supply will originate. In addition, the Mars field in the Gulf of Mexico is not expected to return to production until the second half of 2006. Given the quality characteristics of the Mars crude, its replacement most likely will come from West Africa. In addition, there has been a recent agreement for Venezuela's PdVSA unit to supply China with 100,000 barrels per day (b/d) of crude oil and 60,000 b/d of fuel oil. This oil is currently coming to the United States. It will need to be replaced, and most likely that supply will come from the Middle East. While all of these volumes individually are relatively small, the geographic distances involved will add meaningfully to tanker demand next year. Fearnleys projects that these new trade volumes will add up to 200 btm of extra demand. Collectively, the crude oil tanker market could experience a 4%-5% growth in 2006 against a projected 3.7% increase in tanker fleet tonnage. This suggests a fairly strong year for time-charter rates for the crude oil tanker fleet.

The crude oil tanker market could experience a 4%-5% growth in 2006 against a projected 3.7% increase in tanker fleet tonnage

The petroleum product market is a different story, however. The product tanker fleet is projected to grow by 9.1% in 2006 – the third consecutive year of significant fleet growth. At the present time, the fact that the U.S. has a substantial amount of Gulf Coast refining capacity still shut down has contributed to a strong product tanker market as more petroleum product must be imported. As the refineries come back on stream and winter demand transitions into springtime's weak demand period, the product tanker market will likely weaken. On balance, though, the strength of the crude oil tanker market should more than offset the weaker product tanker market.

Oil Industry PR from a Different Perspective

We were shocked in opening *The Houston Chronicle* on the morning of December 1st to see a full page advertisement by CITGO, the subsidiary of state-owned oil company Petroleos de Venezuela SA (PdVSA), trumpeting its agreement to sell subsidized fuel oil to low-income families in Massachusetts. The agreement had been previously announced about Thanksgiving time by Massachusetts Representative William Delahunt (Dem), who had visited with Venezuela's leader in August. The announced agreement involved subsidized fuel oil sales in both Boston and New York City.

Washington was upset by this agreement that it views as a political stunt by Venezuelan President Hugo Chavez. Mudding the issue is that Congress has been debating, with little success, various programs to increase financial support to help pay high heating oil bills for low-income families this winter. However, those bills include various proposals to boost taxes on the oil companies who are perceived as having profited unfairly from last fall's hurricanes. Without weighing the merits of this debate, we were struck by the sophisticated PR campaign that CITGO has embarked on. We did notice that there was no advertisement in either *The New York Times* or *The Wall Street Journal* that day, which did surprise us somewhat. However, on December 7, a similar CITGO advertisement showed up in *The New York Times*.

We were struck by the sophisticated PR campaign that CITGO has embarked on

We understand that either CITGO, PdVSA or Venezuela has retained the top flight Washington legal and top lobbying firm, Patton Boggs, for advice on how to improve its public image. We are not advocating that the major oil companies need to make a similar move, but given the low regard with which the oil industry is held by average Americans, it seems they need to do something. We understand the challenge of getting all the factions within the petroleum industry to agree on any topic, but the public image needs to be confronted more aggressively.

BP has recently unveiled a major advertising campaign to sell its new image as an environmentally sensitive oil company, in contrast to its black-eye from the Texas City refinery accident investigation

One can look at what BP plc (BP-NYSE) is doing to create a new image. BP is presenting itself as a proponent of renewable energy sources, having recently announced that it will invest $8 billion over the next ten years in renewable energy sources globally and that it plans to double its investment in the company's Rocky Mountain natural gas fields, and as an environmentally-friendly oil company. BP has recently unveiled a major advertising campaign to sell this new image. However, BP has also unveiled the results of its investigation into the Texas City refinery explosion that killed 15 people and injured many others in March of this year. The horrific event appears to have been the result of management error and its disregard of safety issues. So while BP works to improve its PR image on the one hand, it is also trying to soften the negative view of its operations on the other hand.

BP's attempt to recast itself as an environmentally friendly energy company is in sharp contrast to the recent statement by Chairman Lee Raymond of ExxonMobil (XOM-NYSE) that his company is an oil-and-gas company solely. Raymond's comments may be more targeted to his company's future corporate strategy rather than being against renewable fuels, since Exxon made a significant foray into non-oil and gas businesses in the 1970s when U.S. oil production peaked and the Malthusian view of the world espoused by The Club of Rome carried great weight. The experiment was a costly mistake.

For those who do not remember those days, Exxon (well before it acquired Mobil) ramped up investment in hard rock minerals, got involved in the office machine business and even bought Emerson Electric since it was developing a new motor that seemed to be close to a perpetual motion machine. Over subsequent years, all of these investments were either pared back or dumped, as ExxonMobil increasingly focused on its core oil and gas business under Raymond.

A more socially focused ad campaign, such as PdVSA is currently waging, may ultimately do more for the industry than trying to educate readers of print ads – much to the chagrin of the Bush Administration

The PR battle the oil and gas industry is waging is important for the future of the industry. Today's extraordinary profits will end one day. If nothing else, we can look for their earnings growth rate to slow materially, unless we are to be hit with another doubling of oil prices. When earnings growth slows, and or earnings decline, the "softer side" of the industry might hold out promise for incremental earnings, but their PR value may prove to be a greater asset at that time.

While we applaud the new PR efforts of certain oil companies, we still find many of the ads traditionally focused on trying to explain a highly complex and technical industry to a skeptical public in as few words or pictures as possible. PdVSA's more socially focused ad campaign, although also carrying a highly charged political message, may ultimately accomplish more for its image – much to the chagrin of the Bush Administration.

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