



Private Empire: ExxonMobil and American Power

Public Affairs Program

Steve Coll, Joanne J. Myers

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, and on behalf of the Carnegie Council I'd like to welcome our members and guests to this Public Affairs Program.

Our speaker is Steve Coll, who last [spoke here](#) when he discussed his wonderful Pulitzer Prize-winning, best-selling book [Ghost Wars](#). It has been some time since then, and several books later, so I am delighted to have him back at this podium.

Today, he will be discussing his latest book, [Private Empire](#), which is a compelling study about ExxonMobil and American power. Peppared with tales of corporate power, influence, money, and politics, *Private Empire* reads like a thriller. This is a colossal tale that anyone interested in corporate America, big business, and what lies behind the oil industry will want to read.

During what have been lean years for almost everyone, the oil and gas industries have continued to benefit from astronomical profits and multibillion-dollar taxpayer subsidies. This is just one example, but perhaps a very significant one, as to why many think American business has gained too much power and is not quite playing by the rules.

Adding to this disenchantment is a perception that oil companies, through their extensive lobbying, have bought their way into government, which has, in turn, enabled them to profit at the expense of the average citizen.

In *Private Empire*, Steve Coll has combined his meticulous skills as an investigative reporter along with his talents as an engaging storyteller to give us the true extent and reach of the largest and most powerful private corporation in the United States.

Mr. Coll frames this narrative with parallel disasters. Beginning with the [Exxon Valdez oil spill](#) in Alaska, he concludes with the [BP Deepwater Horizon drilling platform explosion](#) in the Gulf of Mexico, which he attributes to lax oversight made possible by—you guessed it—ExxonMobil.

Along the way we learn that under the leadership of blunt-talking, no-holds-barred [Lee Raymond](#), ExxonMobil became one of the most powerful businesses ever produced by American capitalism. As evidence, Mr. Coll reveals that the annual revenues of this company are larger than the economic activity of the great majority of countries.

ExxonMobil has a triple-A credit rating—which, by the way, the United States does not—and, to my astonishment, Mr. Coll writes, and I quote, that "from the day of the [Mobil merger](#) closing until the day of the [S&P downgrade](#), the net cash flow of the United States, receipts minus expenditures, was approximately negative \$5.7 trillion. ExxonMobil's net cash flow from operations and asset sales during the same period was a positive \$493 billion."

In addition, in many of the nations where it conducts business, whether in the oil-laden swamps of the Niger delta, Indonesia, the Middle East, or Russia, Exxon's sway over politics and national security is greater than that of the U.S. Embassy. And in Washington, ExxonMobil spends more money lobbying Congress and the White House than almost any other corporation.

But it's just not about the money, its influence on foreign policy, impact on the environment, or the rise in gasoline prices that makes this behemoth such a compelling story. Rather, it's ExxonMobil's influence as a nonstate actor and its independence, which continues to grow, that makes this multinational corporation so fascinating.

As its allegiance is not with any government but to its shareholders, this may help to explain why, even after the public anger over the oil spills in Alaska and in the Gulf and rising gasoline prices, there have been only a few

initiatives which challenge the status quo in American energy policy.

Now, the question you must be asking yourself is: How did ExxonMobil accrue such power? To shed light on this and other issues, please join me in giving a warm welcome to our guest today, Steve Coll.

Thank you so much for joining us.

Remarks

STEVE COLL: Thank you very much for that excellent introduction.

Just one asterisk. The BP Deep Water Horizon accident was BP's responsibility and its partners'. I think ExxonMobil's contextual position in the Gulf when that happened is a very interesting subject, and the book does treat that. But I certainly wouldn't lay that accident at their doorstep.

But otherwise that was a really thorough and better account of the book than I can probably provide you in the 30 minutes allocated to me. It was very efficient as well.

I want to tell a story that the book tells at the beginning just to set the stage and explain a little bit where this project came from.

I went out overseas in 1989, as the [Berlin Wall was crumbling](#), as a correspondent for *The Washington Post* and spent a fair amount of time abroad in the Gulf and in the Middle East and in South Asia. After [9/11](#), I became interested in some of the stories of where that event came from, how it was located in American covert operations in Afghanistan for 20 years. That was the basis for *Ghost Wars*, which brought me here a couple of years back.

After that, I wrote a book called [The Bin Ladens](#), which was intended to be about the modernization of Saudi Arabia and the complexity of the generational experience. [Osama bin Laden](#) was just one part of that generational experience; that whole group of boomers in the Gulf who came of age during the oil shock, and how diverse their experiences were, and how they searched for identity, how some of them, like Osama, became radicalized, others became Westernized, and what that generation's experience of the global oil economy was in cultural terms.

When I finished that project, I really wanted to write something about oil and American power, especially the sort of asymmetries of American power in the world after 9/11, and that's what drew me to this topic.

When I grew up as a young journalist in the 1970s, there were certain great big books on the shelf, that I literally put on my shelf in my twenties and said, "Someday I will write one of these books"—[A Bright Shining Lie](#) by [Neil Sheehan](#), about [Vietnam](#); the [Halberstam](#) oeuvre; and, of course, [The Prize](#) by [Dan Yergin](#), which was a great narrative of its day about an age of discovery and expansion in the oil industry.

The first premise of this project was to return to the sensibility of *The Prize* from an American perspective, but to recognize that, almost certainly, the framework that I would be working in would be the place of big, privately owned oil companies in a world of increasing constraint, not a world of expansion and discovery. *The Prize* was the story of postwar growth of the global oil economy, and now that oil economy is a much more complicated place, especially if you are not owned by a government. That was where I started.

Initially, when I went into the field to do this research, starting about four years ago—or a little more actually now—I had an open aperture for the narrative. I was just going to write about oil and American power broadly, the way *The Prize* was framed, and choose my stories and hop around. After about six months or so, I decided I really needed to focus on a single company to tell stories that would live on the page in a coherent way.

At that stage, once I made that choice, I really felt like I had no choice but to write about ExxonMobil for an American audience, at that time the largest corporation headquartered in the United States, today by market capitalization second to Apple, trading places with Walmart and Microsoft over the last 10 or 12 years, but always one, two, or three; and also the largest oil company in the world today not owned by a government.

So, in a way, this subject chose me fairly early in the project, and then I bore down to try to discover what ExxonMobil was and how the world looks to it these days.

I want to use my time to talk a little bit conceptually about what it is to be a giant oil multinational. But let me start with a story, which is where the book begins, because it is a story that is critical to understanding the modern shape and culture of ExxonMobil. That is something that will be familiar to many of you, but probably it is an event you haven't thought about much in the last couple of decades, which was what happened on the evening of March 23, 1989, when the *Exxon Valdez* tanker pulled out of the port in Valdez, Alaska.

Have any of you ever been to the Prince William Sound? I traveled up there for the research. I was astonished by this beautiful inland sea that the United States possesses—who knew?—full of whales and seals and sea lions and

just a place of extraordinary natural beauty.

It has been, since the 1970s, the mouth of a pipeline constructed on the North Slope of Alaska. That oil was discovered in the 1950s in expeditions led by BP. BP at that time was aware that the Middle East might not remain a stable place to pump oil and gas, and they started to look for oil holdings in the free-market West that might be more politically reliable. That brought them, in part, to the North Slope.

They developed that oil and built a pipeline down to the port of Valdez on the northern end of the Prince William Sound. There, by the time we get to 1989, tankers are coming in and out in a regular pattern, loading and proceeding to sea.

The passage from Valdez through this chalky port and then out into the inland sea and then toward the open ocean is, by the time we get to 1989, a pretty well-rehearsed sea lane.

I was interested, not being a seagoing person, that it is just organized like a highway: you drive on the right, 10 miles wide on the way out, and 10 miles wide on the way in. These tanker captains had been well-practiced on this route.

The man who was on the bridge of the *Valdez* was named [Joseph Hazelwood, Jr.](#), a graduate of the prestigious New York Maritime College, a man who once scored 138 on an I.Q. test, who quoted [Oscar Wilde](#) and [Stonewall Jackson](#) in conversation at his dinner table, and who was drinking by the time he reached middle age. He said later that he felt he was in some sort of descent. He would often drink five or six doubles before dinner and then have wine with dinner and then drink afterwards.

Like, I suppose, some people who have that kind of a relationship with alcohol, he had actually adapted to it and didn't feel immobilized by it. It was just a part of the way he lived his life, he thought. He had been arrested for driving under the influence a couple of times, but had been allowed to go back to work.

That night, in Valdez, as he was waiting for the tanker to load, he had some drinks at The Pipeline Club and walked aboard through a gate that the Coast Guard was meant to police for such things, and was unexamined, walked aboard the ship, and off they went out into the channel.

Now, there were icebergs on the sea from the Columbia Glacier. These were easily visible and not unusual in March. As they approached the icebergs, they were blocking the outbound lane. There was a common maneuver to deal with that, which was to secure permission to cross over the inbound traffic, route around the icebergs, and then circle back to the outbound lane.

Hazelwood was on the bridge. He essentially said to his first mate, "Look, I've got a lot of paperwork downstairs. You've done this before. Are you comfortable handling this maneuver?" The mate said that he was. Hazelwood left the bridge, which was a violation of company policy, but itself not the world's most unusual thing in these tanker maneuvers.

While he was gone, it's not really clear what happened among the mates on the bridge, but they essentially became disoriented, the way pilots sometimes do in a heavy fog. They really just lost track of where they were.

The next thing they knew was this terrible sound of rock on metal, as the ship ran aground on a place called Bligh Reef off of Bligh Island in the middle of the sound. It ripped open the belly of the ship.

Hazelwood was in his quarters when the mate came running and banged on the door and yelled, "Vessel aground!" He actually added, "We're f'ed."

Hazelwood came charging out of his room and came upstairs and went to the toilet, he later recounted, and threw up, and he said he knew that the world as he had known it had just come to an end.

In an important way that was true of Exxon as well that night, because the corporation's reputation was so badly damaged by the events that followed: 240,000 barrels spilled into this pristine sea. The amount of wildlife there was truly unusual, and the number of surface mammals that were immediately affected by the oil was also unusual for such a setting.

There were seals and otters and others who became covered with oil. They would preen themselves and ingest the oil and become ill and die. So there were all of these television images of these furry creatures almost pleading. As television disasters go, it was of the first order.

A storm blew through and made the cleanup even more complicated. So the problem persisted for months.

Exxon went through a whole series of traumas—business traumas, internal traumas, management traumas—associated with this disaster. Its public affairs and political strategy department discovered in focus groups, 20 years later, that if they did word play with folks like yourselves and asked someone to respond to a word

whatever came to mind, if they said the word "Exxon," most people said "Valdez."

Now, the financial liability that they paid in settlements and in some trials was not that material. But the question of what Exxon should do about what was exposed by this accident became central to the corporation's management culture over the next 10 or 15 years.

First of all, the drunk driving metaphor was much too simple and really not actually very useful in understanding what had happened. The National Transportation Safety Board did a very thorough examination of what had happened and concluded that a combination of cost-cutting in the federal government, cost-cutting at the Coast Guard, lazy management at the Coast Guard, and cost-cutting at Exxon was really responsible for the accident. It is not even clear that the fact that Hazelwood was drinking was relevant, other than that he left the bridge, and if he had stayed there maybe there would have been a more skilled pilot.

But what Exxon concluded was that the accident was an opportunity. They had already been responding to the volatility in oil prices during the 1980s and then a return to declining prices in the 1990s by cutting costs. Those cost cuts, I think, also contributed meaningfully to the accident.

In 1982, Exxon had 182,000 employees. It eliminated 80,000 of those jobs by 1989. It's hard to shrink that much without having an impact on operations.

Now, Exxon had always been a rule-bound, conservative culture compared to other corporate descendents of Standard Oil, but the response that management undertook to the *Valdez* accident turned it into a place apart among industrial giants in the emphasis on rules and systems and automated, idiot-proof employee manuals.

The man who oversaw this is the legendary chief executive who came to office in 1993, Lee Raymond, who served as the chief executive of Exxon, and then ExxonMobil after the merger in 2000, until his retirement at the end of 2005. He was regarded by his industry peers as the most effective chief executive of his generation among the super-majors.

He was also, from a writer's perspective, a gift because he was a man who was very comfortable, is still very comfortable, in his own skin, very blunt, very direct, tough on people, an absolute monster around the office in the view of many of his employees and managers, although I'm not sure that he recognized the effect that he had on others.

But if you were in a meeting of this type and you asked a question and he thought it was dumb, he would tell you that it was the dumbest question that he had heard in a month. If he said, in response to a question that he thought was not particularly bright, "Frankly," that was a pretty good clue to duck if you were at a table or if you were a Wall Street analyst or a reporter. [Laughter]

But he had a very strong vision about how he wanted to transform Exxon. He felt the company had become too bureaucratic, as those 182,000 employee counts suggested, too self-protecting, too slow, and that he wanted to remake it into something more agile and leaner and safer and more effective. He did that through ruthless exercise of his will over the corporation.

One of the areas where he focused was safety. "Never again" was the mantra that came after the *Valdez*. Of course, if you are engaged in massive industrial operations involving a toxic blend of natural and refined ingredients over the course of a day and you have human beings in your system, things are going to happen. Spills are going to occur; pipelines are going to break.

The idea was to install systems that would take the human fallibility out of these operations to the greatest possible extent by automating them, by idiot-proofing them, and by giving everybody the same playbook, no matter where in the world they were, because ExxonMobil was rapidly evolving, especially after the merger, into a more international company with employees distributed all over the world.

The majority of its employees were non-Americans. They would come to the company from their perspectives. The idea was to give them one manual—and it was literally a series of books that you would have—that would tell you what to do in almost every circumstance of your professional day. It was and is still called The Operations Integrity Management System, OINS as it is known to the initiated.

One of the most striking features of it was the safety piece. Now, if we were at Exxon today—and this became sort of propagated across the industry, but it really originated, I think, out of a lot of these reforms. It became the famous "Exxon safety minute." So I should have started the meeting by calling your attention to the exit sign behind you and maybe calling attention to an alternative to the stairs if you needed it.

Every meeting, no matter what type it was—an accounting meeting, no matter whether it's the same group of managers who worked together every day and they met three times a week—every meeting had to start with a safety minute. The responsibility for giving it rotated. You were supposed to come up with something fresh each time. So the employees and managers I talked to said their greatest dilemma was driving in to work trying to

think of something fresh to say about safety that hadn't been said in the previous 175 versions of the meeting.

They would meet in groups and try to get basically accident reports down to zero—which may not always be the same thing as accidents, of course—but to get days lost to accidents down to zero. That was a shared experience that became a little bit like a 12-step program. You would stand around and confess near misses. If a file drawer was left open, you could be reprimanded in writing because someone might bump their knee on it. Excessive numbers of paper cuts at the copier were investigated by managers and reports were written about how to prevent that.

In order to create a seamless attitude toward safety from home to workplace, managers would talk to each other about mistakes they had made away from the office that had perhaps jeopardized their ability to come to work. Someone might confess that they were mowing their lawn and that a rock came out and struck them in the leg. Someone might confess that they went to the beach and didn't use enough sunscreen and became sunburned.

The idea was that these attitudes towards preventing injury were 24/7 responsibilities of everyone who worked there and not something that could be isolated in the workplace.

Lee Raymond believed in this, not only because he wanted ExxonMobil to demonstrate to its own employees and to its competitors that it was capable of achieving as close to zero tolerance of these kinds of errors as any corporation could, but also because he believed that the discipline that would come from instilling these sorts of systems would spill into everything else—finance, accounting, the accountability of employees for their performance, and so forth. So that became the culture.

When the record started to establish itself, many other corporations started to adopt, or at least adapt, some of these practices. One scientist that I talked to who had worked at ExxonMobil for a long time mentioned that she had a good friend who worked at Chevron, and Chevron announced one day that they were basically going to instill the Exxon safety minute system. She called up her friend and said, "We have been absorbed into the Exxon borg." That was the way it was seen.

Now, Exxon came out of these reforms, bought Mobil, and found itself, as I mentioned before, as the largest oil and gas corporation in the world that was not owned by a government as of about 2000.

The world that it now stood in, attempting to bring this kind of forceful culture to bear on project management and finance management and safety performance, was a world of much more constraint than I think we would typically assume when we think about big oil and the degree of revenue and profits that it enjoys.

For a long time, for ExxonMobil, for Exxon, and all of the other oil companies, Standard Oil Company, as well as for the super-majors and the state-owned or state-influenced oil companies in Europe (Total, ENI, BP, Royal Dutch), thinking about replacing the amount of oil and gas you pumped out and sold each year was really not the highest business challenge that these companies faced.

During the 1960s and 1970s, they were co-owners of the largest pools of oil in the world—in Aramco in Saudi Arabia, in the Iranian National Oil Company, in the Iraqi National Oil Company. They had access on their books—they owned in an equity sense—so much oil that it was really not even material to count it exactly. That was not the issue.

But an era of resource nationalism, which arose in the Middle East, in the 1970s most poignantly but starting in the 1960s, which led to the expropriation of many of these holdings, left companies like ExxonMobil in a position where a problem they had not previously grappled with in an existential sense now became a year-to-year business challenge, which was the challenge of "reserve replacement," as they would call it.

ExxonMobil produces today about 4.5 million barrels per day of oil equivalent, oil and gas. You multiply that times 365 days, you get up to about 1.5 billion barrels of oil equivalent a day. Now, that's a pretty good size field that you have to find and bring onto your books as an owner every year. The challenge of doing that at that scale became the imperative that ExxonMobil started to wrestle with.

The coincidence of these reforms in time is that the [Cold War](#) ends, the world opens up to oil companies in ways that it hadn't been open before, but as that opening occurs, there is also a backlash of nationalism that remains strong and is spreading. One of the consequences of that is that there are fewer and fewer places in the world where politically you can own oil and gas, especially if you are a big, bad American oil corporation that comes knocking with all the baggage of the American government trailing behind.

One of the consequences of this dilemma has been in the period over the last 10 or 12 years—and I think it is important to understand because it speaks to the central dilemmas that ExxonMobil faces—if you are ExxonMobil and you want to own oil and gas, and that is emphatically the business model, to book reserves—Wall Street is watching how many barrels of oil do you claim through geological auditing, you own in an equity sense—in today's world there are really only three places, because of resource nationalism, that you can go.

- You can go to the free market West, where property rights are sacrosanct and anybody who wins a contract can own property. Well, the problem is that in the free market West, until very recently, there wasn't growth in oil and gas to be discovered.
- Secondly, you can go to weak states, states that are so weak that they do not really have the capacity to build their own state-owned oil company or to do it themselves or to force you into a contracting role or to force you into terms that deprive you of equity ownership. This has led ExxonMobil and others disproportionately to unstable states in places like West Africa. In a perfect world, if they had equal access to all of the political territory in the world, why would ExxonMobil be in a place like Chad, a fourth world country, benighted, 11 million souls? The reason is they need the reserves. These weak states—Equatorial Guinea, Angola, Nigeria, Chad—have them and they need foreign partners in order to produce them.
- And then, the third element, which sort of blends with the first two, is to go to technological frontiers. You can create value that state-owned companies in Russia and China simply cannot match still if you can go to the hard places. That means deep water, and that means the Arctic and other harsh climates.

So the paradox is: If you think about the conservative culture that was constructed after the *Valdez*, a culture of rulemaking and tight, idiot-proof management systems, and the kind of bet-the-company pressures that come from these kinds of daily operations, on the one hand; on the other hand, the imperative of the business is taking you into higher and higher risk environments—so you are, on the one hand, a very conservative, very tightly managed corporation; on the other hand, risk is now your profile.

It's geopolitical risk, because in these West African states, the very presence of oil and gas in such weak states as the source of national wealth induces violence, it induces guerrilla wars, it induces coups.

Traveling to Equatorial Guinea, which is this tiny oil-rich island state on the west coast of Africa—I came away from my visit there thinking, "The best way to understand this country is just to think of it as a bank waiting to be robbed." [Laughter]

It's 500,000 people producing billions and billions of dollars in cash flow. There is one presidential palace. If you are sitting in the presidential palace, you have the cash flow. You can approach the presidential palace from the sea and from the harbor. You've got to get there with guns, but once you're there you own the bank. Indeed, people keep arriving in speedboats with guns about every six months.

Equatorial Guinea, with the help of the United States, has hired the Israelis to build their defenses basically on contract. They are willing to pay quite a premium to the Israelis in order to have a defense system that will keep their bank safe.

Really, in many of these countries the profile is similar.

I think another aspect of this change after 1989, apart from the dilemma of risk, is the structure of globalization and what it does to corporations like ExxonMobil and how they think of themselves and how they operate in the world.

Over just this week, in talking to people about some of these themes, I've had a number of people reflect on how, in the last 10 or 15 years, we have heard many chief executives of global privately held or publicly traded corporations headquartered in the West say in one way or another what Lee Raymond said, and is quoted as saying in the book, but in his characteristic way more directly than many of his peers might.

He was in a meeting where somebody was saying, "The U.S. needs refining capacity for energy security. We need more refineries to blend gasoline and fuels than we have. So really, for national security reasons rather than economic ones, it would be a good idea if ExxonMobil, which has the financial capacity to do it, would just pursue that project, even if it doesn't quite meet your investment criteria."

He answered, "But I'm not a U.S. company. I don't do things to benefit the government of the United States."

Now, people knew what he meant. He is a U.S. company in a legal sense, he is headquartered in Texas, but of the 80,000 employees, most of them are non-Americans and most of them don't work in the United States. Also, while ExxonMobil pays substantial taxes to the United States Treasury, most of the profits it makes are generated overseas.

As one tax accountant said about this issue of repatriating revenues and profits from overseas to be double-taxed in the U.S., "It's basically malpractice if you do that, if you are a major corporate accountant." So it is done. The money stays out as much as possible.

But what is interesting, if you think why would a corporation like ExxonMobil increasingly see itself as an independent global sovereign—and it does. Its executives are conscious of their independence and of their

sovereignty.

In relation to the U.S. government, I came to think, as I researched case study after case study about how they interacted with the embassy in one country or another—when they called on the United States for help, when they kept their distance, when they rejected American policy in a local setting and pursued their own—I came to think of ExxonMobil as sort of like France. They were mostly aligned with the United States; they were sometimes opposed, but a lot of the time they were just busy keeping track of their own separate system in the world and really didn't want to be entangled in American power unless it served their interests.

What I wonder—and some of you might be in a position to reflect on this as we turn to questions—is how different it was during the Cold War. I think when the world was divided into two competing systems that saw one another in some kind of state of existential opposition, even if you had an imperative of a global business model, and even if that model, like ExxonMobil's, was distributed all over the world and involved the complexity—basically, the ExxonMobil business model is you drill holes in the ground in all sorts of places and then you sit on top of them for up to 40 years at a time and extract value from them.

Now, that's a very challenging geopolitical imperative, to drill holes all over the world and sit on top of them for 40 years at a time. You have to let governments come and go. You have to outlast those governments. You have to have your own economic and foreign policies and security policies that will serve that model.

During the Cold War, even if you were still distributed all over the world in the same way, the sheer urgency of the contest between these two international systems, I think, bound multinationals to the United States in the postwar period in a way that the end of the Cold War left them comparably untethered and comparably free to spread themselves out and to find themselves in a global context rather than a national context.

If you go back and you look at the *Fortune* 500 lists in the postwar period, I was really struck. Exxon is the only durable corporation in the top five of the *Fortune* 500 lists from 1949 until the [present day](#).

But if go back and you look at the lists in the 1950s, all of its peer group are gone—U.S. Steel, General Motors (I mean General Motors is still around but it's not in the top five anymore)—and you look at the various periods where IBM rose and fell, and so forth, and all along there is ExxonMobil still there. Now you look at the top five and you think about Apple. You're going to tell me in 50 years it's still going to be Apple and ExxonMobil? Which one do you think is most likely to be in the top five in 50 years?

This durability, on the one hand, as an American-headquartered institution, but this increasing set of incentives to become global and independent, to untether from the American system, I think is a real tension in a world where, as we know and as my kind introducer was very correct to point out, we live in a world where corporations increasingly matter more than states, where all kinds of entities that are not states matter more than states, and where the relative power of corporations in comparison to states is growing. It is very interesting then to reflect on the changing character of these corporations, not just their power and activities.

Thank you very much for listening. I look forward to your questions.

Questions

QUESTION: Don Simmons is my name.

The recent story about the Argentine government forcing a [takeover](#) of the Spanish company's interest in [YPF](#), I've tried to call to mind any kind of slip-up like that that ExxonMobil may have had, and I can't think of any. Have they been politically skillful, in your opinion?

STEVE COLL: They have a very specific set of attitudes about these dilemmas when they arise, which is that they are less flexible than their peers about renegotiating contracts. Part of their global system is a system of universal contracts and contract terms in which they believe that if they compromise in order to hold on to an oil equity play in one place, that their weakness is going to spread around their other potential negotiating partners. So they keep a very firm line.

The best example of that was in Venezuela in 2007, when [Hugo Chávez](#) essentially announced unilaterally that he was going to reset the terms of these association agreements that all the super-majors down there had, accessing what is a very rich lode of unconventional oil that is difficult oil to mine but abundant if you can mine it at the right price.

Of all the companies that were implicated by Chávez's announcement, similar to the Argentine decision, only two left. One was ExxonMobil. The other was Conoco. The others all renegotiated, basically settled for the less favorable terms but the durability of access.

What was interesting, one of my favorite chapters—I almost called my book, actually I would have called the book if the publisher had permitted it, *The Cash Waterfall*, which is the title of a chapter which, if any of you are

lawyers, I urge you to read it because it's like a lawyer's "grand slam in the bottom of the ninth" story. Basically, "the cash waterfall" refers to a covenant that the Bank of New York oversaw to manage this huge amount of cash coming out of Venezuela, then making sure that Hugo Chávez didn't steal it basically before it was allocated by contract to all the parties who had access to it.

As ExxonMobil was exiting Venezuela and trying to pretend to Venezuela that they were going to be managing a very constructive transition and so forth, on New Year's Eve at a law firm in New York they basically took this cash waterfall system, stocked up all the money in it, like hundreds of millions of dollars that was owed to Chávez—Chávez's lawyers were there, just about to take possession of like \$400 million—when all these bonds were paid off and various complicated things were going on.

Basically, the cash waterfall was stopped up. There was a big pile of it that was about to go to Venezuela. Exxon's lawyers went secretly into a court and got a seizure order and basically stole the \$400 million—by law, legally stole it—as basically a down payment against arbitration claims that they intended to enforce and which are still going on.

Anyway, they play hardball. But they do leave when challenged more often than not. That is the most significant example of expropriation they faced recently.

QUESTION: My name is Ed Marschner.

I was very interested in your starting to talk about this evolving culture at ExxonMobil. How long do you think it will be before ExxonMobil has a non-American woman as chief executive officer?

STEVE COLL: That's a great question. How long will the oil age last? [Laughter]

To my mind, as an outsider who just came in cold and spent a long time trying to understand this place in an impartial way—and, really, my goal was just to understand the way the world looked to them more than anything else—they really struggle with diversity and they struggle with social change. That is the flaw in the system.

There are great strengths to being organized like the Marine Corps. This is another aspect of their management culture. You spend your life in ExxonMobil.

It is a very rigorous system. You come in, and early on you are reviewed, and if you are in the top 10, you will go into a pool of other valedictorians, and if you graduate out of that and after six or seven years you still want to be part of this rulemaking culture, then you are on a track. Now, you will pay a price. You have to move every three or four years in all likelihood. But you will be tracked toward leadership.

So when folks get to the very top, they have all grown up together as a cohort. I think if you took the top 100 American publicly traded corporations and you mapped, say, the top 50 jobs at every one of those, you would find in almost every instance—I think every instance—a significant number of those jobs were populated by people who had moved in laterally, say from a competing corporation or from a competing industry. They brought in some fresh perspective, some fresh experience, some new way of thinking about the world.

At ExxonMobil you wouldn't find that. Just like if you have a successful career at IBM, that doesn't mean you can move over and be a two-star general in the Marine Corps. You come up together as a group.

There is a sort of coherence and cohesion that comes with that, but also a self-limiting insularity. The presence of women and the presence of diverse executives in the upper ranks of ExxonMobil—I haven't done the statistics, but it must be the least diverse performance of any corporation in the top 50, I would imagine. It would be hard to imagine something less diverse.

There was a director who came in from another corporation, another industry, and he is quoted in the book. He said he was astonished by this culture and trying to figure it out. He realized at one stage, he said, that all of the top four or five executives whom he met only had sons, not a one of them had daughters.

He had a background in math. He went home and tried to do the probability tables. He said, "Okay, there is a selection bias here. But what could it be? Is it hunting? I don't know." There is in fact a hunting culture at the corporation.

So why does it matter? ExxonMobil's response to a lot of these sorts of criticisms or observations from outside is "doesn't matter." But I think in this case it does. Your question implies what kind of a world we are moving into.

You think about what is ExxonMobil's value creation competitive imperative. They've got to create the best science and the best technology in a world where the gap between private corporations and Chinese state-owned corporations is closing fast, where intellectual property is being stolen or it is migrating for one reason or another all around the world very quickly.

So you have to maintain an edge in human capital in a profound way looking out 30 to 50 years. How are you going to do that if you don't have a work environment that is friendly to the very best women who are coming? Who is graduating from college in the United States anymore? When you look at the way the world is changing more broadly, they are going to have to figure this out or they are not going to succeed, in my opinion.

QUESTION: Hi. I'm Andrew Medvedev.

I just have a pretty basic question. Do you think on balance ExxonMobil today is a force for good or not? On the one hand, you've got a company that is delivering oil responsibly, with a focus on safety, with structures and procedures in a dangerous world, that's paying taxes. On the other hand, you've got subverting governments, democracies, being responsible to only one set of constituents, so on and so forth.

Where do you come out on all this, having thought about it and read about this for years?

STEVE COLL: I was asked this question yesterday in an interview. The guy said basically, "Are they a force for good or a force for evil?"

Truly, my take is they are a force, they're just a force. [Laughter] I mean something by that besides just evading snap moral judgments about complicated subjects.

They are embedded in our system in a very unusual way. If you look at all the industrialized democracies in the world, they all have state oil companies of one sort or another, whether they have oil or not—so Total, ENI, Statoil, BP, Royal Dutch. In all those cases, the companies are tethered to the state. In many cases, they are owned by the state, or they were owned by the state and were privatized for efficiency reasons, or in the case of Total and ENI they are embedded in the elites and everybody went to school together and they're really affiliated with the state abroad and they are an instrument of state power in a fairly direct way.

Only in America do we have a state oil company whose chief executives tell *Scouting* magazine, as [Rex Tillerson](#), the chief executive of ExxonMobil did recently, that his favorite book is *Atlas Shrugged* by [Ayn Rand](#). I mean only in America do we have a state oil company that sees itself as living in opposition to the state that gave birth to it.

Actually, Exxon was born by an act of antitrust decision-making by the Supreme Court in 1911. It was forcibly broken up out of Standard Oil. Sometimes you get the feeling in their Texas culture that they still haven't gotten over that and they're still pretty skeptical about their own government.

That is a way of describing the nature of their role in the world and in the American system and in the global system. It is very unusual.

So you could argue: "Well, then it would be better to have a regime of more tethering to the American state." But that presumes that that would actually deliver change in some of the areas that you would reasonably be concerned about—their presence in weak states, the way they define their corporate citizenship, the extent to which they are ever held accountable for the way they define their corporate citizenship, and so forth.

One last thought. In the United States, obviously, the weight of ExxonMobil over a long period of time is very heavy in our energy economy and in the politics of energy. I came to think as I worked on this that they really are our energy policy.

They are far more cohesive and coherent and determined and well-resourced than any federal energy policy that has been announced since 1970. Compare what it is the federal government claims to be doing about the mix of incentives and taxes and policies and regulatory systems, how consistent that is, how effective it is, what kind of a coherent direction it produces, on the one hand; and then think about what ExxonMobil is doing on the other hand.

The fact that they live independently in our system of laws and in our history and in our culture means that they really are our energy policy.

What is the consequence of that? It is varied. But one of them is if you flip on the light switch and turn an extra light on in this room, the power generated by that decision will create profits for a specific corporation headquartered here in New York, and that corporation is regulated as a utility in some kind of public interest standard.

Now, it may be privatized, it may be encouraged to maximize profits to some extent for efficiency's sake, but basically the inheritance of electric power generation in the United States is that it is an essential public good that requires public interest oversight. The utility regulatory system assumes that if ConEd fails to deliver electricity in a pinch, because of a storm or because it got lazy one day, that it will be accountable to the oversight system.

Now, if you go to the gas pump in West Virginia as a construction worker in a pickup truck and you are driving to suburban Washington to work on a housing project, and you arrive and the price at the pump has gone up 15 percent from three months before, wiping out whatever margin you had on your commute, you have no recourse.

In fact, gasoline has become a utility function for many people in the United States. But, by accidents of history and by the power of the oil industry, it is not remotely regulated as a utility. In many other countries it is. It is our system that we do it this way.

The final thought about that—one of my objectives in this book was to try to think about what it's like to be unpopular if you are a corporation. What do you do about that? What's your strategy? And what can you do about it?

The structure of ExxonMobil's unpopularity arises from the fact that when you go to the pump and you discover that it is \$4.25 instead of \$3.15 a gallon, there is a big sign next to it that says "Exxon." There is really no corporation in the world that would voluntarily have its consumers come into contact with its brand at a moment when you are inflicting pain on them. That's really not like a sustainable business. But it is part of the structure of this utility function.

In fact, there is a fascinating—I found it fascinating—incident in 2005, a board meeting, where Lee Raymond as he is retiring essentially says to the ExxonMobil board: "You know, why don't we just get out of the retail business? It's a low-margin business, it's full of environmental problems in the industrialized countries because of spills all the time, and all we are doing is associating our brand with something we can't control, which is global oil prices and the way they leach through to gasoline prices, and which makes us unpopular. Why don't we just become DuPont? All the money we make is in the upstream anyway."

It is not as crazy an idea as it sounds. They have in fact been exiting from the retail business. But in order to realize the value of these legacy brands, they have to keep the brands alive. So in the end they don't really change their dilemma.

QUESTION: Ron Berenbeim.

At some point in your remarks you talked about the Cold War and how there was competition between models in doing business, particularly in weak states. Then you alluded briefly to the intense, or potentially intense, competition between the U.S. business model and Chinese state-owned enterprises.

It suggests to me that there might be, just as there were in the Cold War, particularly in West Africa and weak states, two competing models, the Exxon model and the Chinese business model. These are in competition in those parts of the world.

What can you tell us about that competition and what may emerge from it, the greater success of one or the other, or some kind of hybrid version?

STEVE COLL: That's an interesting question, and it is very much ongoing. In places like Angola and Nigeria and elsewhere, the Chinese are working very hard to make inroads— not just in, of course, the oil industry but in all of the natural resource industries. Their government party still retains a somewhat mercantilist attitude about the benefits of actually owning commodities, even when these are traded in global liquid markets and the actual benefit of being an equity owner isn't as obvious as it might seem. But in any event, they are there and they are very much pursuing the model you have in mind.

I think where the edge of the competition lies now is that the Chinese companies, on the one hand, are less efficient, less technologically capable, than the northern Western companies. But the gap is closing because they are acquiring IP and they are acquiring experience and they are driving in a certain direction. The direction certainly would seem to be one of improvement, notwithstanding the self-limited problems that come with being a state-owned enterprise in which the state is essentially a party.

These Chinese companies do suffer from the crazy, disorienting effects of politicized control, featherbedding, and all of the strange, often opaque, relationships that the party has with the big cash cows of the Chinese state. They suffer from that, but, in general, they are on a trajectory of improved performance.

On the other hand, they can come to these governments with something that ExxonMobil just can't bring—arms packages, soft loans, a trip to Beijing, a UN vote, a UN veto—all explicitly guaranteed in certain circumstances.

I traveled around Africa for this book. I went to Equatorial Guinea, Chad, Nigeria—I've been out there a fair amount in other circumstances, but I really made concentrated, extensive research trips for this. I came away less blown away by the Chinese menace on the continent than I expected. They still are self-limiting in the way they operate with governments. They basically use these projects to export their own labor, to take care of their surplus labor problems. Their project management is still weak, a generation behind.

I came to think If I were the emir of Oilstan and I happened to rob the bank and win the coup and suddenly found myself in charge, and I trusted my cousins to take care of my security long enough to develop an oil project, what would I do? Would I really turn to the Chinese or would I invite ExxonMobil in make a PowerPoint presentation?

I would want to listen to ExxonMobil because I think the record would show that they could credibly say to me—and maybe our friends at Statoil could say the same thing—"If you go with us, the project is much more likely to come in on time and on budget, and we will actually write the checks that we say we are going to write, and you will get more money faster, because we will actually perform what we say we are going to do. And there is going to be transparency and you will be able to monitor this.

"Yes, we are not going to park \$300 million in a Swiss bank account for you, we are not going to let you fly around in our plane, and we are not going to sell you tanks. But what you want is money. You can buy all those things with the money we generate. If you do business with our less-efficient competitor, you are not going to get there, because your oil is offshore or it's in deep water or it's hard to produce or it requires something that we alone still possess."

Now, for as long as they can make that argument and win it, they will be in business. But I think it is harder over a 20-year period.

QUESTION: James Starkman.

In West Africa, has ExxonMobil, not for altruistic reasons but for self-serving reasons, invested in Gates Foundation types of projects—schooling, clinics? Have they done any of that? On the other hand, how have they avoided the Foreign Corrupt Practices Act in terms of greasing the palms of the dictators in places like Nigeria? I think Royal Dutch Shell is bigger in Nigeria than Exxon is.

STEVE COLL: Yes.

QUESTIONER: But how do they balance that off?

Also, in domestic politics the [depletion allowance](#) is coming under fire in this election campaign. I was wondering—that has been embedded in the system, I think for good reasons myself, for an awful long time. Do you think it is appropriate that that even should be an issue?

STEVE COLL: Those are all good questions. Let me take them in order.

ExxonMobil does make investments in public health and women's education and other charitable endeavors in the West African countries where it works. I would say the single most effective investment and important investment that they have made that has actually changed something on the ground is in malaria eradication in Equatorial Guinea and some other places where they have worked with Marathon and others to do something useful.

They are very cautious, however, about anything that smacks of nation-building. They are constantly being strong-armed by their host governments to build hospitals and roads or to do more, and they refuse to do it as part of the same universal contract regime that they follow.

I think the most discouraging case overall is in Chad, where Exxon owned some leases that were stranded in the desert in southern Chad, actually where the desert blends into the semi-tropical forests of Cameroon. They have never been able to develop that oil because there was no pipeline. So they brought, in the 1990s, the World Bank, the [Clinton administration](#), and others together around this very ambitious experiment in trying to beat the so-called resource curse, Dutch disease, where poor countries that lead their development through resource extraction often find that they go backwards rather than forwards because of the distorting effect of such heavy resource development in poor economies with little human capital.

The idea was to beat the resource curse by establishing this grand social experiment in which the authoritarian leader (shall we politely call him?) of Chad, [Idriss Déby](#), would agree to route oil proceeds through a secure bank account in London and spend them only on social development, public health, education, and other agreed allocations.

Exxon benefited from this pact, even though it smacked of nation-building of the sort they normally abjure, because it allowed them to get this pipeline financed and to develop the oil.

When this project started, Chad, which is a really moving and benighted place—only, fortunately, 11 million people live there, but it's a pretty miserable place to be, kind of a fourth world country really; when this began, they were 171st out of 177 nations on the Human Development Index, the quality-of-life indicators—life expectancy in Chad was 46 years when this project began. Today, 2012, after the production of many billions of dollars in oil revenue out of this social experiment, they are 181st out of 187 countries and life expectancy is 49 years.

Idriss Déby in 2006–2007 was able to buy his way out of this deal so that he could buy weapons. He essentially broke the compact and he defied the World Bank president at the time, [Paul Wolfowitz](#), the former [Bush administration](#) deputy defense secretary. He challenged him and said, "No, no, we are going to confront you about your attempt to get out of this bargain," and he basically used the extraordinary amount of revenue he had from

ExxonMobil to pay the World Bank off and free himself from his obligations and to do what he wanted.

Just to give you a sense of what the power of a corporation like ExxonMobil represents in a country like Chad, at the time that he broke the deal, 2006–2007, in Chad, one of the world's poorest nations, the United States Embassy was delivering in total—and if you include counterterrorism aid to chase notional [al-Qaeda](#) guys around the desert in the north—total aid no more than \$10 million a year. The royalty and tax checks that ExxonMobil was cutting to Idriss Déby by 2007 were in excess of \$500 million a year.

So if you are Idriss Déby and you are sitting there and you are looking across—there's the U.S. Embassy, there's the ExxonMobil country representative office—who are you going to call?

Now, that's an extreme example, but I think it is suggestive.

Second question, the depletion allowance. I sat through a number of briefing sessions and reporting sessions as I was working on this book to try to understand the arguments on both sides. I came away thinking, "My readers are going to be grateful that I am not going to treat this in detail." [Laughter]

I guess I take the point that the depletion allowance is a manufacturing policy allowance essentially and that discriminating against the oil industry around the principles of this depletion allowance by singling out their schedules is a very specific choice. It is not really cricket to call it "direct oil subsidies," because essentially it is a manufacturing subsidy.

Now, if we had a national energy policy that was at all coherent, it probably wouldn't start there. It would probably, in my judgment, if you take the risks of global warming at all seriously—which I do, following the path of 97 percent of climate scientists who believe the case has demonstrated that the risks are grave to human civilization—if you start from that premise, you want to construct a national energy policy that puts a price on carbon fuels to incent innovation and change, a reasonable price that doesn't overload the damage to the economy on the front end, especially if you are recovering from a [recession](#)—but you want a coherent, long-term, stable price environment in which there are strong incentives to navigate this shift, would you really start with the depletion allowance? Probably not.

If it was part of some big package by which you were going to get to some goal that you could set out, maybe. But it is not even obvious to me that that is the mechanism to incent this change. But it's great politics.

JOANNE MYERS: I want to thank you for a wonderful story. Thank you for making ExxonMobil come alive.

STEVE COLL: Thank you.

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