Steve Coll: ExxonMobil and American Power

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Greg Dalton: Welcome to Climate One, a conversation about America's energy, economy, and environment. To understand any of them, you have to understand them all. I'm Greg Dalton.

Today, we'll peak inside America's largest company, ExxonMobil. In the new book, *Private Empire: ExxonMobil and American Power*, author Steve Coll pulls back the curtain on the secretive and highly disciplined company to chronicle how it exerts influence on governments and creates wealth for shareholders.

He also details the company's campaign to cast doubt on the scientific fact that heat trapping gases are destabilizing the earth's climate. Over the next hour, we'll discuss the petroleum powerhouse with Steve Coll and our live audience here at the Commonwealth Club in San Francisco.

Steve Coll has won two Pulitzer prizes, one for *Ghost Wars*, a book on Afghanistan from the Soviet occupation to 9/11, and an earlier one for news coverage of the Securities and Exchange Commission. He's a former managing editor of *The Washington Post* and is currently president of the New America Foundation, a Washington think tank and in his spare time is a staff writer at *The New Yorker Magazine*. Please welcome Steve Coll.

[Applause]

Welcome Steve.

Steve Coll: Thanks Greg. Thanks for having me.

Greg Dalton: So you write about ExxonMobil as an independent sovereign. What does that mean? What does that scope of power mean for a corporation?

Steve Coll: Well we start with the numbers. Last year, their revenue was a north of $450 billion. For some of you who might over at Chevron, which is the third largest corporation in the Fortune 500 list, that's twice as large as the revenue of Chevron. So the gap between the largest and the third largest is an order of magnitude.

$450 billion is larger than the size of the economy of most of the world's countries. It's about the size of Norway's economy to provide one kind of indication. But I think more -- of more interest in a sort of geopolitical sense, we live in an age of multinational corporations. We live in an age when the power of states is declining, the power of corporations and other non-governmental groups including terrorist networks and non-governmental environmental campaigners is rising in relative way, and in those fear of corporations, multinationals like ExxonMobil, with that scale of finance and influence have become increasingly untethered from their own national settings and truly are global entities and see themselves that way.

When I first started thinking about them, looking at them, I thought they look like a country to me. And I was surprised a little bit to discover, yeah that's kind of how they see themselves. They do very much organize themselves around a series of independent economic foreign and security policies, they see themselves a sovereign, their constituents are their shareholders, their framework is the rule of law, and they've -- I came to think of them as sort of like France in relation to the

United States in the sense that, you know, in a political sense, they are more often aligned than not, but sometimes they're quite opposed and generally, they just try to stay out of America's way. They have their own global system to attend to.

Greg Dalton: Did you tell anyone in Texas you think about like French--

Steve Coll: As France?

Greg Dalton: I mean yeah.

Steve Coll: Yeah, no I haven't. That them striking words. Never mind being compared to say the New York Yankees with the Dallas Cowboys kind of an evil empire that -- that are comfortable with, but if France, it would probably been an insult.

Greg Dalton: And the head of this country, you say he ruled as in a mirror was Lee Raymond, who really shapes the company as we know it today. So paint a picture of Lee Raymond as the head of ExxonMobil.

Steve Coll: Right. So I wanted to write about the modern corporation and that really meant two things, the corporation that was remade after the Valdez spill, which really Raymond essentially was responsible for those reforms, and then also the corporation that swelled in size through the Mobil merger in 1999, 2000. So Lee Raymond became the chairman and chief executive in 1993 and served until the end of 2005. His nickname at the company was "Iron Ass", and that was saying something at a corporation where the corporate culture was specially closed and severe and where many of the leading executives were military veterans and who brought to there a kind of Marine Corps attitude.

Among the other distinctive features, among the many distinctive features of ExxonMobil's corporate culture is it's closed insular character. This is one of the last intact cradle-the-grave social contract lifetime employment companies in the country. And all of its executives rise up together in a cohort that come in out of college or graduate school, there's a sort of up or out moment around six, seven years in, and if you're "up", you're willing to move every three years and willing to shift around and to adapt to a very rule-bound, very rigid company, you can rise to the very top.

If you look at most corporations in this country, and you've mapped, say the top 30 or 40 jobs, you'd normally find people who move laterally in from another competing company or from another industry, they brought in fresh ideas, some reforming spirit, at ExxonMobil, that doesn't happen. It's much more like the Marine Corps. And you don't become a two-star Marine Corps general because you had a successful career with IBM and decided to go wear two stars. And that's kind of the attitude at ExxonMobil.

Greg Dalton: You don't transfer from the Navy and that's for sure.

Steve Coll: Yes.

Greg Dalton: One of the interesting points you talked about Lee Raymond was when he called up one of his executives when he was in a hospital. Tell that to us.

Steve Coll: Sorry, yes. So one of his goals after the Exxon Valdez was to basically automate every aspect of ExxonMobil's daily performance, certainly its operations and safety performance, also its financial performance, and its administrative performance, to wring out to the highest possible extent human fallibility from ExxonMobil's daily experience, because what the Exxon Valdez's accident exposed was systematic failure and also a high degree of human failure.

And so he built the system and basically pressed everyone to reduce accidents and hours lost to safety issues to zero, and where as close to zero as they could humanly get, held people accountable, fired, yelled, coerced, attached performance raises and other incentives to this and also form this almost Soviet sort of worker groups where there was a collective sense of responsibility for safety performance. If were at ExxonMobil, we would've already taken a safety minute and we would've pointed out where the exits are and I would've come up with something original to say about how to evacuate in the case of an emergency. And these worker groups have to start every meeting with a safety minute, even if they had five meetings a week with the same people, and some of the managers I talked, they said actually their greatest source of anxiety was coming up with something fresh to say as they were driving into work.

And there was a kind of 12-step aspect to it, you would stand up and talk about near misses that you'd had both on the job and at home so people would talk about getting too much sunburn on vacation, they would talk about operating their lawn mower improperly and having a rock come out and strike them in the leg, you could be -- you would receive a written reprimand if you left a file drawer open because somebody might bump into it, if there was a rash of paper cuts around the copier, this would be noted and investigated.

And so in this context, there was a man named Frank Sprow who is running the safety department for Lee Raymond. And secretly, he was a danger junkie. He was like a speed racer, he drove motorcycles in competitive races, he bought sports cars and went out to the racetrack and ram them around at 170 miles an hour. He went big game hunting in Africa for rhinos, and he was just devoted to risk taking on the weekend, even though he was running the system in which all of these expectations were built into the company and he had this accident while racing a bicycle. I guess Raymond had some idea of what he was doing on his own time, and Raymond called him in the hospital and basically said, "You might think I'm calling you to wish you a speedy recovery from your broken bones. I'm actually calling to tell you that if you are ever in a hospital again, it will be your last day at ExxonMobil."

So anyway, he was a tough manager who did not suffer fools gladly and was a source of, you know, real intimidation and even some resentment along his colleagues. I don't think he was very well aware of the effect he had on people but he did do something that, you know, in this world, it's pretty hard to do. He took a corporation that had a certain way of working, was very bureaucratic, was very set in its ways, and he changed it profoundly.

Greg Dalton: And one area of influence, I want to go to 2001 early in the Bush administration, there were some briefings starting to happen about climate change within the new Bush administration, and you write that Collin Powell, secretary -- or he was maybe in a different position then, Don Evans were open to the idea of climate change. And tell us the story there in terms of how Exxon influence that early phases of the Bush administration.

Steve Coll: The key relationship was between Lee Raymond and Vice President Dick Cheney. Cheney of course have been the chief executive at Halliburton during the 1990s but -- and Halliburton is of course a contracting company that collaborates with ExxonMobil and other super major oil companies. But more than the business relationship, Raymond and Cheney were close personal friends. They were neighbors in Dallas in Highland Park, their wives became friends, they went hunting together, they were similar men both had grown up in the Midwest, they both have kind of a -- sort of a hard view of oil and the world and the realities of the world as they would see it.

And so when Cheney became vice president, the chairman and chief executive of ExxonMobil have a very distinctive personal line of communication that was rooted in many years of friendship. And so in that respect, he and Cheney had a like-minded view of global warming and efforts to ameliorate it through the Kyoto Accords or by any other means, whether it was investing in science research which was perhaps the easiest path for the Bush administration to take because Bush's budgetary expenditure didn't require them to impose costs on oil companies or the economy.

And so there were a series of briefings, there was kind of a study group in the first six months that ran in parallel to the Energy Policy Task Force that which more was known at the time. And the study group was basically a cabinet level briefing shop where the White House invited scientists from NOAA, the National Oceanographic and Atmospheric Administration and other federal departments to basically explain the threat of global warming to the new Bush cabinet. And James Hansen was among those who came in and brief them. They basically put up all kinds of slides and photographs and forecasts and they talked about real estate in Miami, the scientists who did the briefing kept thinking, "What we'll get to these guys?" I know, condos underwater, and everybody put up something about the threats to the Florida coast. And there was a kind of it wasn't clear where this was going in terms of policy, but Cheney, there's one of the scientists who was briefing was sitting next to him watching as Hansen talked, and talked about rising seas and various other potential outcomes, and he watched Cheney just in that way that's often been described by Cheney's biographers, there's a very good Bart Gellman called Angler, that has a little sense the way he stayed silent, but he had this kind of shifting body language that would signal when he was really unhappy. And the scientist could see that he was really -- he stood up started pacing around and he just sort of thought, this is bad. He is really going to shut this down. And in fact, within the matter of days, this whole thing was unplugged, all the scientists were told to pack, go back to their departments, and a whole series of hasty, preemptive decisions were made that left the Bush administration essentially without a meaningful climate policy other than some science funding.

Greg Dalton: But do you say that that was ExxonMobil or that's more Dick Cheney, there was more of an alignment of interest rather than cause and effect?

Steve Coll: Yes, yes. I would be inclined through that theory -- I mean he and Raymond had been talking about these issues through the whole 1990s. I mean at the time of the Kyoto Accords, Raymond was the chairman and chief executive of ExxonMobil making speeches at the World Petroleum Forum in Beijing urging China to vote against the Kyoto Accords, and meanwhile his, you know, his -- one of his closest friends in Dallas was Cheney. So they had share this conversation the whole complex of perceptions and beliefs around their rejection both of the science and of the bargain that Kyoto represented.

Greg Dalton: And on the science, the company engaged in a disinformation or a campaign to cloud the science and talk about that campaign to question, introduce doubt into the science of climate change.

Steve Coll: Yes. So a series of investigations have brought out a pretty rich body of evidence about what this campaign really amounted to and I think it's important to set one frame of context, which is that, you know, the Kyoto Accords were quite unpopular in the United States when they were enacted. In fact, there was like 97 or 93 to nothing vote in the United States Senate telling President Clinton don't even bother to send this over for ratification. But they were mostly unpopular in industrial America and across the Congress on fairness grounds and on the grounds that the economic burdens that would be imposed on United States by Kyoto didn't warrant paying.

But there were very few corporations that did what ExxonMobil did, which was to take an aggressive and often surreptitious campaign, put it into motion, partly through the American Petroleum Institute to trade group but partly on its own dime, to basically develop support fund, often uniquely fund campaign organizations, communications organizations, free market groups, sometimes purpose-built, to attack the credibility of the science itself. That was what was really distinctive about their role in the effort to undermine Kyoto. And they had the checkbook to undertake that campaign in a much more effective way than any other entity, and they did it. And often they didn't declare their positions. There was really only when environmentalist investigators, science organizations and others begin to unearth tax documents and other disclosures that the extent of this kind of purpose-built campaign was exposed.

Greg Dalton: Was it effective?

Steve Coll: I think so. I mean you look at public opinion about climate science today and you can see that there is a great to a more skepticism relative to scientific consensus about this issue than virtually any other scientific issue that has public policy implications that I can think about. It's just that ratio. The scientists are you know, 97% in one place and the public is 40% in that place. Now, about smoking is dangerous, there's no such gap about many other scientific issues that create controversy or public policy decisions, how much should we tax ourselves to address this problem, how serious is the problem. You don't see those kinds of gaps. And I do think that the campaign was unfortunately effective.

Greg Dalton: And at the same time, people inside the company were seeking to understand how the company might gain an advantage in a warming world?

Steve Coll: Yeah, one of the former scientists that I interviewed said, "Look, don't believe they didn't think this was real, it was our assignment to discover how a warming planet would free up oil and gas resources and maybe to get ahead of that so that we could seize those opportunities before others perceived them. And look the simplest example is in the news right now which is this enormous agreement that ExxonMobil has made with Rosneft, the Russian oil company, to develop oil and gas above the Arctic Circle. Now why is that deal possible? It's because Arctic sea ice has been retreating at a very alarming rate, and it is that softening of the ice cap, north of the Arctic Circle that has freed up all of this ambition.

So it would be, you know, a sad irony if ExxonMobil's shareholders ended up connected through 20 years of dividends to the exploitation of oil north of the Arctic Circle that was partially made possible by the pollution of public understanding of the dangers of global warming.

Greg Dalton: And one of the things you write about is a University of Wisconsin sociologist who got a call one day from an ExxonMobil person as part of a legal strategy. Tell us that.

Steve Coll: Well there's this -- yes, he was I think a sociologist, yeah, and he had studied the question as an academic of how exactly do corporate influence campaigns work. And you get glimpses of them in the documents. There's a document called Informed Influentials that I made some use of that showed how ExxonMobil conceived of its target audiences and how they would seek to reach them and what success looked like. They thought very deeply about these subjects. These are obviously very smart people and they have a lot of time to focus on hard problems like how you affect lead opinion in westernized democracies. But this sociologist from an academic perspective was interested in the same question. So he had written about this to some extent and he'd also written a little bit about the value of punitive damages in the democracy, how to think about punitive damages in jury, and so he got a call, he'd written something about punitive damages I guess that had attracted ExxonMobil's attention and they called him and basically said, "You know, you're thinking about this is the kind of thing we would support. If you were interested in bringing forward some academic journal articles, maybe we could work together." And the sociologist sort of described thinking, "Well, rather than actually collaborate with this proposal, why don't I just actually just document what it is they plan to do?" And so he instantly turn this call into a kind of sociological experiment and he -- and he followed the threat all the way through a series of conversations. I think he actually even traveled down to Irving to meet with some of the executives who had contacted him, and then at the end when he published his experience in a journal of sociology, you know, called a lot of attention to this broader pattern of academic studies that ExxonMobil had used to challenge the validity of punitive damages in the case arising out of the Valdez that went all the way to the United States Supreme Court. And the final punctuation mark on the story is that when the United States Supreme Court ruled on the punitive damages issue in the Valdez, they actually went ExxonMobil's way. But David Souter, a former justice, wrote in a footnote, in reference to all of these pleadings that ExxonMobil had presented about punitive damages he said, "Because these studies were funded by ExxonMobil, we decline to rely on them." So there is that footnote, but then there's the decision. And that to me is sort of encapsulates some of the pattern of ExxonMobil's presence in our society. Yes, they are often contested and sometimes exposed and even in some tactical or communication sense, they can be defeated, but they're indebtedness and their persistence and their resources or such, that in the long run, they generally end up where they wanna go.

Greg Dalton: And they were thinking in this case about not a jury but an actual -- a review court judges who would look more favorably on this kind of academic literature.

Steve Coll: Right. Right. Thinking, what influences a justice?

Greg Dalton: If you're just joining us, our guest today at Climate One is Steve Coll, author of Private Empire, ExxonMobil and American Power. I'm Greg Dalton.

So after Lee Raymond initiates this dis-information campaign, cloud and climate science, there's a change of leadership and a new CEO comes in and he takes a different track. Why?

Greg Dalton: Well, by 2005 when Lee Raymond retired, a series of investigations by journalists, scientists, environmental campaigners, Green Peace, Union of Concerned Scientists, congressional investigators, had laid bare of at least substantial body of evidence about this campaign, and had called a substantial amount of attention to it and had generated opposition among ExxonMobil shareholders, corporate responsibility activists, the Rockefeller family, the original owners of standard oil from which ExxonMobil has descended, every shareholder meeting was turning into a circus and which Lee Raymond would have to defend his position against all kinds of skeptics and opposition and many of these folks who are now questioning ExxonMobil's corporate citizenship in this respect were, you know, from mainstream investment firms, pension funds and the like. And as this transition in the corporation's leadership took place, I think the board, looking at Raymond's successor, for a variety of reasons said to itself, we need someone who can communicate better around these issues. And Tillerson, Rex Tillerson who is the Chairman and Chief Executive today and was ultimately selected as Raymond's successor was identified as someone who could more effectively and perhaps less provocatively communicate that ExxonMobil's story to all kinds of audiences and perhaps reset some of the corporation's reputation around client -- climate. So when he came in, he undertook a review basically within the corporation to assess all of their activities and, uh, to set a new course. And they did publicly announce that they were going to pull funding to some of the most provocative groups that they had been supporting in this campaign. And at the same time, they were very worried about doing anything that would invite lawsuits or seem to imply liability by the corporation for any damage that might have risen from their activity or from global warming in general. So they were very and they're often very much guided by in-house lawyers who have a very cautious and defensive kind of approach to these issues. And so they crafted this incredibly convoluted -- frankly, incredibly convoluted campaign to communicate change and they tested it out at little private gatherings with environmentalist, activists -- anyone who they can into the room that run little focus groups and say, "This is kind of where we're going on climate." And then they take note if people reacted to that. The essence of the message at first was we were never wrong, we were only misunderstood. And that was like a perfect lawyer's mind, right? So, we are changing but it's only because we're misunderstood and so we don't have any liability issues since we never were wrong and we didn't do anything wrong. And that kind of landed with a "pffftt" and didn't really make a bit impression on people but it did -- the one thing that did make some impression was their very visible changing funding, pulling funding from controversial groups. And then later, they changed in a more material way by coming out in support of a carbon tax in the United States, the first time ExxonMobil had ever done such a thing. That was four years later, so…

Greg Dalton: And around that time, there was a big debate, climate comes to the forefront in Washington, DC. A bill passes through the house, it doesn't get through the senate. What was Exxon's role in that cap and trade chapter?

Steve Coll: Right. So I'm sure many of the folks here know in order to address the risks and dangers of global warming, the objective of policy makers has been to impose a price on carbon-based fuels in order to create broadly-based economic incentives for consumers and companies to move away from high carbon fuels toward lower ones by essentially taxing the higher ones. But the system that was designed to achieve that goal called cap and trade, was a very specific form of trading of pollution credits among polluters that was modeled on a successful system that was used by George H.W. Bush to address -- and others that was active in his presidency -- to address acid rain. And so the European Union had already established a global warming directed cap and trade system that was still in its teething stages but it was the policy framework that was favored and it was able to bring more corporations and more political actors to the table because it had a sort of flexibility that allowed people to trade-off their choices a little bit. And so, the -- those who were interested in enacting climate legislation which included some Republicans, John McCain at that time before he ran for president and others, built this very formidable lobbying coalition as almost pre-cooked it during the 2008 campaign cycle with the idea that when the next president came in they would take this coalition that had been very carefully sort of put together and they would bring this cap and trade bill forward. Well, ExxonMobil during that time sort of started to think, you know, this train is leaving the station but we're not on it. Should we just continue to oppose any price on carbon and continue to be vilified for this outlier position or should we come to the table? And after a long period of review, they decided to support a price on carbon but not to support the cap and trade regime which you know, to them is an offensively bureaucratic mess that hasn't proved itself and it's just more government regulation. I mean, to give you a -- just a sense of what their attitude towards the government is, this is the largest institution of concentrated economic power outside of the state in the United States. Right? It's the largest corporation in the United States. It's an institution of immense concentrated power. As Chairman and Chief Executive Rex Tillerson was recently asked by Scouting Magazine -- 'cause he's very active in the Boy Scouts of America -- what his favorite book was. And he said it was Atlas Shrugged by Ayn Rand. You know, a dystopian novel touchtone for libertarians. So here is the chief executive essentially of our state oil company and that, is at least some sense of his attitude towards the government and you can imagine a cap and trade regime almost looks like a science fiction horror movie to a libertarian and so they did eventually bring themselves around to a tax which they've argued was a cleaner and more consistent and more effective way to achieve the same goal. And you know, Al Gore favored the carbon tax at a certain time. It was just that when they came out with it in 2009, it was not the political negotiation that was actually under way. So they -- on the one hand they had won some public relations benefits by changing their position and they are a consistent company when they do something like this, they're not likely to reverse it so they'll come back when this subject comes around, they'll be there. But on the other hand, they made themselves irrelevant, they invited a lot of criticism that they were doing this cynically to win PR,that they were secretly trying to undermine the bill.

Greg Dalton: And you don't think that's the case? You don't think there's --

Steve Coll: They were lobbying against the bill. They contributed to the bill's defeat in the senate because they oppose the bill. They did not want to see cap and trade regime come in but I don't think that their record of conduct is such that you would -- that the next time, if the United States developed the politics to enact something like a carbon tax. You know, would they reverse their position and lobby against it because they now think climate science is not alarming anymore that -- no, I don't think that's likely to happen. I do think it's of some significance. I don't know how to measure the -- its significance that the largest and most recalcitrant oil corporation headquartered in the United States, now says in public that the risks of global warming are so significant that even they agree a price on their own fuels is warranted for instant change. Now that -- you know, that is I think at least one little pebble in the rebuilding of some kind of national direction to address this issue.

Greg Dalton: What are they doing on renewable and alternative energy? A lot of oil companies are investing in bio-fuel companies in Silicon Valley or dabbling here and there. They're not doing that?

Steve Coll: Lee Raymond used to say we ought to emblazon on the granite in front of our headquarters the words "crude oil". They were very -- they remain in many ways proud that they're oil and gas purists.

Greg Dalton: Oil in their veins.

Steve Coll: Oil and they mock BP in the -- and BP drove them crazy with its successful marketing campaign building a logo that had a yellow sun and little green trim and building solar power plant 33 miles from Washington DC which happened to be within a day trip for members of Congress to see what BP was doing as if 98 percent of their revenue didn't come from oil and gas production. So you know, ExxonMobil said, "Well, at least we're not hypocrites." That was kind of their line. Other times they'd be more generous, you know, more power to them they'd pulled off a hard trick, greening an oil company but they didn't go down that path and they -- someone at BP, while I was doing this research, told me, you know, he was a senior position, should have been a position to know, he said, "it was well-understood within BP that all the spending on alternative energy was in lieu of spending money on television ads trying to convince people of things they knew not to be true." So it was a smarter marketing decision to spend $200 million on a solar power plant that you never expected to make money but it was a real thing, it was a real investment. Member's of Congress could see it, it was concrete, it wasn't like a TV campaign of science as saying, "Yes, and we really are thinking about the world's future." And so it was just an alternative marketing strategy in essence. ExxonMobil accede that and they also didn't see any investments that they actually believed in by their own management committees, you know, finance standards. The one exception they undertook was an investment in algae that's a potential source of biofuels. Their criteria has always been -- these are declared criteria as "We won't invest in anything that requires government subsidies to be competitive. And we won't invest in anything that won't offer returns consistent with the returns we can make from oil and gas. And we won't invest in anything that doesn't scale to really the whole global system or at least the whole national system 'cause we're not interested in small projects. We're too big to waste our time with small things." So, algae sort of had the potential to meet all those criteria if you could engineer a form of algae that would generate biofuels that could blend with gasoline and replace the kind of gasoline we use now in our entire national system. But currently, their earlier experiments haven't gone very well and it seemed to be backing down from that initial set of commitments.

Greg Dalton: It's expensive to scale algae biofuels. What disruptive technologies could threaten this enterprise?

Steve Coll: So it's very interesting, they asked themselves that question in a very serious and regular way. So they have this forecasting group and a strategy group that every year investigates potential black swan technologies and alternative energy technologies that could challenge their assumptions about their own 30-year investment horizon and business model. And they commission a lot of scientists to do internal white papers about everything. Ethanol, solar, wind, even though there's a power generation fuel and not directly threatening, they still keep track of everything that's going on in the edges of those technologies. And I think the technology that has produced the most anxiety during those exercises is batteries. You know, battery storage capacity. I think the thing that they worry about most would be some transformation in the dynamics of the cost of manufacturing capacity of batteries overtime. But they actually -- they're interested in it 'cause they think it could very rapidly change the transportation fuels economy on a global scale. But they're not convinced, they don't see it. So they claim that they're not anxious about it, just curious, very deeply interested but my sense, my kind of experience of them was that they were in fact anxious about it.

Greg Dalton: There is a company recently here in the bay area, San Francisco Bay Area which announced a big breakthrough just like you're talking about. The question of course is whether that scales would pre-approve commercially viable but someone said, I don't know, how a moment in the laboratory at least. Another aspect here, we haven't been talking much about overseas. You talked about the independent sovereign, how aligned was Iraq -- going into Iraq -- was ExxonMobil with the Bush administration? Were they -- kind of -- do many people believe closely aligned with the invasion of Iraq or they hold back a little bit?

Steve Coll: No, I think Raymond and Cheney really disagreed about the invasion of Iraq, actually even in the context of their friendship and collaboration. Because you know, from an oil company's perspective, what do you want the world to be? You wanted it to be stable, full of property rights and open to oil and gas drilling? What you don't want is tumult and war which disrupts oil and gas drilling and the idea of making the world safe for democracy and human rights, which was, you know, part of the rhetorical framework that the neo-conservatives brought forward around the invasion of Iraq and other foreign policy after 9/11, that's completely anathema to the major oil corporations that are working in countries like Equatorial Guinea and Chad where it's really quite inconvenient to talk to their partner about the democracy and human rights. And they certainly don't want to be associated with an American agenda of that type. So, they were -- Lee Raymond was talked into going off the American enterprise forward at a certain stage and turning down the chairmanship by his colleagues because they were all saying, "Hey, you know these are the guys that are going out trying to essentially militarize American democracy campaigning." That's the opposite of what we want. We're realists, we want a stable world. Now, having said that, of course once Iraq was invaded and Saddam Hussein was overthrown and the coalition provision authority was established, and the Bush administration came in to remake the Iraqi oil industry, ExxonMobil and all the others were right there to advise them that the best thing they could do would be to open their oil fields to western oil corporations. That would get them out of this mess that the Bush administration had created for Iraq as fast as possible because only western oil companies could deliver their levels of production increases and rehabilitation of decaying fields and so forth. And so what's the outcome? I mean I asked -- I was talking to an Iraqi oil executive official about this at one point and he said, "You know, look, here's the way our crowd, our Iraqi -- sophisticated Iraqi energy crowd thinks of it. We understand that the war wasn't for oil, we also understand that it was likely that the outcome of the war would be -- that western companies would have access to oil. You know, the first World War wasn't a war for oil but it ended up that the results of the war was western oil companies had middle eastern oil. That's what we expect here and that was before the lease options that brought Exxon actually into western oil and then into Iraqi fields where they have an equity position. They've also now gone up to the Kurdish regional government and they're drilling up that signed agreements up there and despite the fact that both the Bush administration and the Obama administration have warned oil companies to stay out the Kurdish areas because it threatens to exacerbate Iraq's disillusion.

Greg Dalton: Steve Coll is author of Private Empire, ExxonMobil and American Power. He's our guest here today at Climate One. I'm Greg Dalton. As the oil companies look around internationally, a lot of the oil is increasingly either difficult to get or under the control of state-owned oil companies, not accessible to these companies which brings us to natural gas which is a fuel that's both cleaner in terms of greenhouse gasses and it's more -- there's more of it in the United States and it's -- let's talk about the gas you mentioned which have been a big part of Rex Tillerson's leadership at ExxonMobil.

Steve Coll: Yes, you rightly pointed out but I think it's worth emphasizing for a minute. The way the world looks to ExxonMobil is actually much more constrained and challenging than you might assume given their obvious size influence and the steadiness of their business model. In the sense that they pump out 4 ½ million barrels of oil equivalent oil and gas each year, that means that if they have to replace that amount, that's a lot. And as you say, the big pools of easy oil in the world and the Middle East are no longer available to corporations like ExxonMobile, they've all been nationalized due to spread of what sometimes is referred to as resource nationalism, the sense of pride in most post-colonial countries that oil as a national resource belongs to people, it shouldn't be owned by foreign corporations. Now the result of their being excluded from so much of the world's big supplies of oil, is as you say, that they're pushed into two different kinds of risk frontiers. One is geopolitical risk because the places where you can buy oil and gas are generally weak states that are too weak to develop their own national oil companies. So they end up disproportionately in West Africa. I mean when I was traveling in Chad on this book I kept thinking to myself why is Exxon here, I mean poor benighted Chad, 181st out of 187 countries on the human development index, life expectancy of less than 50 years and landlocked. Why would you be here? And the answer is because there just aren't that many places where they can own oil, and so they can't be choosy. So there's geopolitical risk then there's technological risk going into deeper water into harsher climates where they can outbid state-owned oil companies that are not so efficient. And so they end up in this risk profile and then as point out the last option is to come back on shore and to shift towards natural gas and that is in fact happening. The mix of ExxonMobil's portfolio of reserves has shifted gradually from being oil-dominated to being evenly split with a bias rising toward natural gas. And the principal reason is the development of new supplies onshore and the continental United States, so-called unconventional gas exploited by tracking techniques. And ExxonMobil was slow, all the big majors missed tracking, they all missed the unconventional gas story but ExxonMobil has always been much better at buying opportunities than creating them. That's the advantage of their discipline. They've got his cash flow that nobody can match and one of the -- they have a triple A credit rating today. You know, it says government does not -- they're one of four corporations in the United States that has triple A credit rating. Total did said that during that Lehman Brothers crisis his main worry was putting his cash in a bank that wouldn't fail. And so they used that cash to buy America's leading producer of unconventional gas, XTO in 2010. So now, the leading producer of natural gas in the continent of the United States is ExxonMobil.

Greg Dalton: And there's one point where you talk about the public perception of the company where the gas stations are actually liability and they -- you think that they maybe considered getting rid of the gas stations which are low profits but they're high visibility and just getting into sort of a more upstream business.

Steve Coll: Yeah, it's a funny thing. I mean one of the things I try to understand as I gradually was able to see the world as ExxonMobil did through reporting was -- what is it like to be so unpopular, what is it like to be hated? Is it consequential? What do you do about it? What was their strategy? How do they discuss it amongst themselves and one of the aspects of that, arose at a board meeting in 2005 as Raymond was getting ready to retire and he essentially said to the board, you know, the reason we're so unpopular is because everytime Americans go to fill up their gas tank, they stand next to a sign that has our brand on it and the gasoline price that they can't control and they're often quite angry about. Now, what other business in the world puts their customers directly into contact with their brand position at the moment of maximum pain in their customer experience. That's like -- that's an irrational business strategy. Now, it might be something we would have to endure if in fact selling gas where the big red and blue sign was the most profitable aspect of our business and something we just absolutely need to keep doing, for sure, almost in fact, it's our lowest margin business, it's a terrible business in a lot of ways, it's filled with increasing environmental liability because of a gasoline spills legacy of contamination sites and we don't make much money in it. So why don't we just get out of this business and become like DuPont? Nobody thinks about DuPont but there are huge industrial corporation, engine lots of risks every day. And you know, the board was -- they said, well that's not a crazy idea. And they have in fact been divesting from the retail division but I guess the problem is and I haven't really reported this up but I would assume that the problem is for the benefit of shareholders, you sell all these stations and all the signs the value that you have to realize comes from actually selling the brand. So you can't just snuff the brand out because you don't like the fact that there is such a name as Exxon and Mobil in the world. I mean, you have fiduciary responsibility to realize value from that so I guess that's what they've done. So anyway, they don't own as many stations but the signs are still there with the prices on them.

Greg Dalton: We are going to put our audience microphone up here and invite your participation. This is often an important part of the event. Here on this side, we invite you to please go around through that backdoor rather than crossing this camera and the line will form a chain, our producer right back there who you saw earlier. And we welcome your one part question or comment. If you need some help keeping it brief, we'll help you out. And while that is getting together, Steve, one more question. In this political season, gas prices have become a hot political issue. Mitt Romney recently in a stump speech said that President Obama is for all the reforms of energy above ground, and he said I'm for energy that's below ground, gas and coal and oil. So how was this playing out in terms of the presidential campaign? Is it really that much difference between Obama and Romney on energy?

Steve Coll: Some on regulatory sort of attitudes but not much on kind of structural policy.

Greg Dalton: It seems like Obama wanted both sides. He's saying --

Steve Coll: Yeah.

Greg Dalton: … drill more but he's kind of demonizing the oil companies with subsidies and windfall profits.

Steve Coll: Yeah. I mean there's a lot -- all of the campaigns -- the campaigns on both parties recognize that big oil companies are fundamentally unpopular. We live in an era of economic anxiety where Americans are especially suspicious of the power of large unaccountable corporations in their lives for complete understandable reasons and the oil companies in a way we were discussing before especially visible oil price, gas prices had been rising although recently they've declined through this year, they were rising quite steeply and many people are trapped in their relationship with gasoline. You know, it's important to emphasize -- if you flip on the power switch in the back of this room, you generate power. A corporation profits from that decision but it's the utility that's regulated around the notion of public interest standard because there's a recognition that the provision of electricity is so essential, so pervasive that there has to be a public interest standard for regulating the profits and performance of the company that delivers it. Well, in the post-war world, our world today in the United States, gasoline is such a utility for many people. If you're a construction worker living in, you know, in suburbs of Sacramento and you're driving through a jobsite in Palo Alto everyday in a pickup truck, you've got no choice but to go to the pump and fill up and when the threat of war in Iran or Nigeria militancy jacked your price up by 15 percent, you don't have any accountability there and the corporation that provides you that gasoline actually doesn't control that price in truth but as we're talking about before, they're the visible deliverers of it and they do make some money off of it. So no wonder Americans are angry at oil companies. Essentially, this is a public interest function, the provision of retail transportation fuelling that is managed without reference to the public interest. It's a kind of historical accident and in most countries, the arrangements are actually different.

Greg Dalton: Let's have our first audience question. Welcome to Climate One.

Audience: Thank you. I have a question on -- follow-up question on Exxon's position to the Iraq war. Uh, didn't the US oil companies assume they'd have first right of refusal on oil contracts and partnerships and what percentage of those contracts and partnerships went to US companies and what percentage went to Chinese and Russian companies? Thank you.

Steve Coll: I think the companies basically wanted to do a few things after the invasion was finished. One was to develop their own independent contacts with Iraqi oil industry decision-makers. So they developed these programs to bring Iraqi technocrats in the oil industry and decision-makers and policy-makers out to the United States to have contact with the companies to train them, to bring them up to speed about how the oil industry had changed since their school days, 'cause they've been isolated in Iraq. So to build networks of relationships that could allow them to have a more successful position when bids were actually brought out. And then they tried in various ways, there are different approaches and different individuals but they basically wanted to create conditions in which Iraq would make sustainable decisions of its own to invite international oil companies in. You know -- because they knew that was the only way they were actually going to get something that would stick and get a contract under terms that they wanted. And they also wanted to persuade Iraq to create terms that would allow them to book the oil as owned for purposes of reporting to their shareholders in the Securities and Exchange Commission. And it's a long story, it's in the book, it's a riveting story in the book. Do you want to read it? But at the end of the day, they actually achieved many of their goals, that's what I would say.

Greg Dalton: Yes, sir. Welcome.

Audience: You've said a great deal about how large Exxon is. I was wondering if Exxon is in a position to sustain that. How are their reserves relative to other companies in the industry?

Steve Coll: Yeah, that's an interesting question because that's their greatest sort of anxiety, is reserve replacement. Again, you know, 4.5 million barrels a day times 365 days, so you know, you're up there about a billion and a half a year, you've got to find and you've got to own it. That's a lot. That's a lot and they --

Audience: They want to cover every year, right?

Steve Coll: Yeah, every year and they struggle to do it and during some of the period that I report on, they basically fudged their claim that they were replacing 100 percent of reserves by ignoring Securities and Exchange Commission rules about what could be counted. And they just basically went out with their own numbers and then in footnotes and SEC filings would tell you, well, by the way, significant amount of this is not technically supposed to be counted according to the SEC but we claim that it's a real reserve. And eventually they lobbied in the last year, the Bush administration got the SEC to change the reporting role, now they can claim 100 percent recovery.

But it’s not just their scale, that’s probably the biggest factor in a pure math sense, but it’s also these constraints of being confined to the weak state risk environments or the geologically mature at least until recently, you know, free market west where everybody has property rights and it’s not so complicated if you can find it. But overtime, will they continue to replace reserves at a 100 percent ratio year after year after year, I think that’s a big question. It will depend, at least in the next 20 or 30 years about how this unconventional oil and gas funds in the United States actually play out. I think it’s a little more uncertain than the headlines sometimes suggest.

Greg Dalton: Welcome to Climate One. Let’s have the next question.

Audience: Yeah. So I was recalling Germany’s scales, black water during their democracy now and I was actually wondering like what role do the rise of corporate mercenary forces play and the 30-year strategy of ExxonMobil basically like do they have one, do they have mercenary forces. I think that that would be a really important element of your thesis, framing ExxonMobil as a sovereign state.

Steve Coll: And there are episodes that I go into the book that I found fascinating where this broad subject comes into play. In general, the resource attraction corporations and in particular, ExxonMobil, a deal with security in hostile environments where they’re producing oil and gas by arranging for the host government’s military, will pay military police to provide a security around their oil and gas fields. Typically, this is built into their contract, they pay the salaries of the local soldiers. When I traveled in the Delta in Nigeria, I went with a local politician, Nigerian politician to avoid being kidnapped figuring I could fly under his colors and he had --he was going down to visit his constituents in the area where ExxonMobile worked in a quite bum state. And he had one gunman that’s keeping him safe. And it wasn’t really much of a killer force but that made him feel better and the guy was a Nigerian paramilitary policeman and he had a uniform that had the Mobil Pegasus on it. It was literally -- that was his -- it’s a patch and so we were literally with the Mobil police. Now, in Indonesia, they had paid some notorious units of the DMI, the Indonesian Military to defend a disputed gas field in the province of Aceh. There are credible documented cases of human rights violations by those forces. They were also in ExxonMobil’s payroll, their civil litigations still going on in the American court system about ExxonMobil’s potential responsibility for the activities of those forces and you know, it’s a very important part of the story and that I tried to document in real detail both in Indonesia and in Africa.

Greg Dalton: Steve Coll is author of Private Empire ExxonMobil and American Power. He’s our guest today at Climate One at the Commonwealth Club. Let’s have our next question, please.

Audience: Hello. My name is Thor Hanson, I am Norwegian and I’m surprised and pleased to know that we are as big as Exxon. My question is -

Steve Coll: It’s the oil empire.

Audience: Yes. This is a question to somewhat expand the topic because I know there is obviously the context of climate we talked about here, but I’m sure your book also talks -- you know, about the corporate power and how it relates to the US political system. My real question is how close in did your research bring you to the to understanding their real influence on American politics and how close does that bring our political system in the United States towards a system that starts to walk and talk like a facist system?

Steve Coll: Well, I don’t know if a reporter never really knows how far you get -- you just get further than you were the day before and I did have a series of questions that I wanted to try to answer about their Washington operation and their political action committee strategy and their spending patterns and I did a lot crunching of data and comparative analysis. I found some things that I felt confident about. One was that ExxonMobil's political action committee is spending, among large American corporations that are politically active, it was unusually aligned with the Republican party 90 percent of their political action committee spending, and the 2010 cycle was to the Republican candidates and even higher percentage in 2012. Chevron is also biased to the Republican party but it gives the Democrats twice the rate ExxonMobil does and it was interesting, many large corporations that are politically active and that you might think would have a similar alignment with the Republican party around regulatory or free market issues Dow chemical and WalMart, many of the rest put them on pretty evenly between the parties and so I think what it illustrates is that ExxonMobil really has not developed an ecumenical political strategy in the United States and despite the enormous diversity of their own shareholding base and their own employee base and the challenge of maintaining a scientific and technological edge in this age when for example, you know, women are better educated than men increasingly and will be for the next 20 or 30 years if want great scientists, you better build a workplace where women feel comfortable. I don't think ExxonMobil has such a workplace myself from everything I heard about it. And in broad strokes -- and so that was one finding. The other finding was well, how they actually lobby in Washington? In the Congress and in the Executive Branch? And they're very consistent in the way they approach things. They have a manual, it tells them exactly what their views are, they turn up PowerPoint slides and they will brief those slides to anybody who asks, and if you say well, what if we did this, they say I am sorry this is our position and they're very fixed into it. And what they're effective at mostly besides capture of regulatory agencies such as the Interior Department for Deep Water Horizon, is blocking things in Congress. You know, that's their main strategy is to prevent bad things from happening to them. It won't outlast governments in Washington as much as anything else because they've got 30 or 40-year time horizons for many of their investments and these presidents, members of Congress, you know, they come and go just like, you know, coup-ridden governments in West Africa.

Greg Dalton: I see our next audience question. Welcome.

Audience: In recent days, Apple computers has been moving about sheltering profits and avoiding taxes and other tech companies also. I wonder how -- can you comment on ExxonMobil and perhaps all the big oil as to how effective they are at doing this?

Steve Coll: They have reported effective rates of US taxation on the relatively high side of American – large American corporations that practice tax management strategies – I guess they would call them, tax avoidance probably the rest of us would call them. You know, what this idea of repatriating and managing profits offshore is a universal corporate practice among global corporations, it would almost be malpractice if your accountants didn't at least advice you about some of the ways you can keep money away from American – from the highest rates of taxation. My impression reading that very good reporting about Apple, I think was in the time – is that actually that particular story was a more aggressive version of this common corporate practice and yielded a lower effect of tax rate for Apple than you would see generally in the oil – and we haven't looked at Chevron but I had looked at ExxonMobil, at least effective US tax rate, as I say, is a little bit on the high side of the corporations that report that is the lowest general electric.

Greg Dalton: That has been reported too, let's have our next question, please?

Audience: Hi Thank you. You mentioned the Green Peace and Union of Concerned Scientist exerting pressure on Exxon, how effective do you think this broad base stakeholder campaigns are on actually shifting the corporate behavior?

Steve Coll: I think they are effective. I think they're – I think it's – sort of part of the narrative tension was two very effective opponents going at it over something they really cared about. And – and Greenpeace in particular was interesting because like ExxonMobil, you know, they are uncompromising, they're determined, they're well-organized and they go at it. You know, they're not looking to be popular. They're looking to be effective. And they – they and ExxonMobil were very – I thought very well matched in a way and I would say, you know, at a tactical public relations public narrative level that Greenpeace won that by 2005, they had so tied ExxonMobil to – it's in fact rather radical decisions to fund anti-science groups and campaigning campaigns. But they also learned something about ExxonMobil. In 2003, they staged this grate theatrical strike at ExxonMobil's headquarters in Irving where they dressed up in tiger costumes and they'd scale the fence and other people dressed up in business suits with brief cases and drove in in Ferraris and they occupied the roof of the headquarters and they unfurled banners saying global warming crime scene and the tigers ran around around in the offices trying to educate the executives and one guard fell down and hurt himself like cut his hand a little bit or something. And so ExxonMobil went after them with a Dallas prosecutor aligned with their outrage and they got huge restraining order on Greenpeace basically committing them not to commit any misdemeanors for the next ten years at some enormous cost. And then a couple of years after that, at the headquarters in Washington, the Internal Revenue Service turns up and begins this massive extensive audit of Greenpeace on the grounds that it may be violating its obligations under 501(c)(3) as a charitable organization not to engage in certain kinds of political activity. And it turned out that the impetus for this audit was influenced by a new non-profit that had sprang up after this raid on ExxonMobil called Public Interest Watch which was an organization that raised questions about groups that seemed to be organized for charitable purposes but also seemed to engage in political activity. And then eventually, someone dug out Public Interest Watch's tax filing and it showed that 100% of their income came from ExxonMobil. So you know, these were two hard ball players. Now you'd say that Greenpeace kind of got the better side of the public narrative arguments except as we are talking about before, where did public opinion about climate science end up and what happened to carbon pricing in the United States? So in the big picture, who really achieved their objectives?

Greg Dalton: But during that time, ExxonMobil profits continued to go up. Did they really pay a financial cost for that misinformation campaign? I mean, maybe PR hit but –

Steve Coll: Right. So it's an interesting question because it goes to this basic thing that I keep trying to understand. Does it really matter that they're hated from their perspective? And what's their attitude about it? And their view tends to be – no, it doesn't really matter. We're just going to be who we are. We're not gonna be –

Greg Dalton: The profits keep coming.

Steve Coll: Profits keep coming. But I would argue that there are at least two ways in which it is immaterial to them in a business sense never mind the possibility that leaders of a corporation owned by Fire Fighter Pension and millions of ordinary Americans through Mutual Funds and with 80,000 employees around the world and as an environmental steward in many communities of the United States, the possibility that they might design to define their mission you know, in a broad way, broader than they do. All right. Let's set that aside. Is there really any business reason why they should care? I think there are two. One, they lose an awful lot of jury burdens. And they basically cannot go to a jury trial without knowing they're gonna get a billion dollar judgment against them. Now, they often win on appeal and they always appeal and they're very good at litigating. But over time, do you really want to go to every jury trial in the United States knowing that you're like in a deep hole? That limits your options. And then the second piece of it is, talent retention and retaining scientific and technological excellence. That is fundamental to their business. They have got to compete more and more with Chinese companies. They're gonna get better and better that are gonna be very well resourced and they have to deliver on their claim that they uniquely have scientific and technological edge. But how are they gonna do that if they don't have a culture in which when a scientist, a great geologist goes home for Thanksgiving dinner and says, "I work at ExxonMobil." You know, their cousins all – "You work at ExxonMobil?" What happens if you go home and say, "I work at Apple." Everyone says, "I want an iPad, I want an iPad." And so overtime, I mean, this kind of strategic position in the public space, I think for corporations that matter as much as our corporations now do, the weight they have in our society. I think overtime, you have to do something about that.

Greg Dalton: Let's have our last audience question. Yes, sir?

Audience: You've described Exxon's effect on United States' democracy and also its militarization of – or increasing militarization in places such as Nigeria. Could you also comment on other global market states how ExxonMobil's lobbying has affected – say, the Brits or the EU states?

Steve Coll: They are very active in Europe. I mean, the main thing that from a broad perspective, I guess I'll just answer with one story that's in the book about something that I didn't know anything about until I started looking at all their lobbying records and trying to understand what they cared about by sort of indexing and analyzing their disclosures and I saw that they were spending a lot of time on phthalates. How many of you know what phthalates? Or anyway, they are chemical that is pervasive and plastic softening chemical basically in rubber toys. If you take out your iPod ear buds, there's phthalates in those and in Europe which is governed to a greater extent than in the United States by the instincts of the precautionary principal which basically holds that if evidence emergence from science of potentially catastrophic risk to humans in any system product or environmental setting, that it is generally wiser to be cautious and to intervene early and then to allow the science to catch up rather than create harm that you only discover after you've allowed these products forward. And California is the – basically the bridge from Europe where precautionary principal regulatory regimes enter the United States usually at the state level and then they spread to Vermont to maybe Minnesota and eventually, there's enough state laws that are based on these European frameworks that allow somebody in Congress to try to nationalize this proposal. So, one of ExxonMobil's concerns about the EU is basically to contain precautionary principle and to prevent it from becoming the basis for regulatory approaches in the United States. They advocate and spend a good deal of time investing in at universities and different risk management centers. They advocate more of a cost benefits basis to evaluating risk in these settings. And so that's one example among several active here.

Greg Dalton: Before we wrap up, let's look ahead. We've been looking a lot toward the past 20 years. In this election cycle, we have perhaps a President Romney. Some people have suggested that he may have a Nixon to China opportunity to do more in climate than perhaps a second term President Obama or perhaps Barack Obama who you and your wife knew a little bit in college, takes aggressive action in his second term on climate.

Steve Coll: Well, who's in the Congress? I mean, I don't see where you get Filibuster-Proof majority in the senate based on where the senate race is look like they're going. And I don't see the House changing hands. Myself, I mean, it would be hard to imagine how you could rebuild the political coalition. Remember, you know, in 2009, but for the crises, but for the Lehman Brothers, but for the recession, some sort of Cap and Trade Bill almost certainly would have passed because you know, Lindsay Graham and some other elements of the republicans in the senate had already basically decided to get that 60th vote organized and this had been building and there were a lot of corporations that had joined in this effort and there are a lot of compromises that would be made. But at the end of the day, the crises in the employment, the crises of jobs in the United States is so great that all sorts of fence-sitting politicians who had earlier thought they could bear defending a decision to impose short-term cost on the economy for long term gains in preventing warming change their minds and so I think that moment was lost and I don't think it's likely to be restored by this election. I think it's probably another you know, four or six years before those politics return to Washington.

Greg Dalton: And we need to end it in there. Thanks to Steve Coll, author of Private Empire: ExxonMobil and American Power. I'm Greg Dalton, thank you all for coming and thank you for listening at Climate One.

[Applause]

[END]