

---

## HOW REX TILLERSON GOT HIS LESSON ON IRAQ

28.12.2016

---

Politico, 27 Dec 2016

In 2013, Rex Tillerson flew to Baghdad for a rescue mission: to save ExxonMobil's access to some of the world's largest deposits of oil.

That trip to meet then-Iraqi Prime Minister Nouri al-Maliki came more than a year after the Exxon CEO had enraged Baghdad by signing a deal with the Kurdish regional government to drill in the smaller — but financially lucrative — oil fields in the northern part of the country.

Tillerson, now President-elect Donald Trump's pick for secretary of state, ultimately succeeded in what one former U.S. official described as a colorful dance, quelling the anger in Baghdad over Exxon's contracts for the Kurdish fields without losing the earlier deals it had made with Maliki's government in the massive fields of southern Iraq.

But the saga showed how Tillerson directed Exxon into a precarious deal that nearly jeopardized its work on some of the world's most sought-after oil fields for an unproven and risky venture — a move that might be welcomed by Wall Street but would carry a far more danger for the nation's top diplomat in a country struggling to recover from sectarian violence. And it also offered the CEO a taste of the complicated Middle East politics he'll have to navigate if he becomes secretary of state, including balancing the interests of the central Iraqi government and its northern neighbor, Turkey, with those of the pro-American Kurds.

Exxon took a risk, got a little ahead of its headlights and then corrected and reached out to the people who had opposed them, said a source familiar with the events in Iraq, one of several people POLITICO spoke to about the issue who requested anonymity.

Trump himself has shown an interest in Iraq's oil, though his take has been less politic: Take the oil, he has said repeatedly, asserting the U.S. should have claimed the country's crude as payment for deposing Saddam Hussein, and to prevent the fuel from falling under control of the Islamic State or Iran. Experts have dismissed that idea as both illegal under international law and politically disastrous.

Exxon's gamble in one of the most volatile regions of the world showed its determination to stick to its business objective, even amid resistance from the U.S. government and the threat of rising political instability. And for Tillerson, it could serve as a lesson to Trump's Cabinet.

It will be perhaps his hardest task as secretary of state, to balance those sets of issues: the need to contain Iran, ensure that Iran implements the nuclear agreement, retain the confidence of the

Sunni states \* as well as the impact that Syria has not only on the region itself but in Europe as well, especially given Russia's new central role in the region, said Carlos Pascual, a former top energy envoy at the State Department and the former ambassador to Ukraine and Mexico.

Exxon had been among the major oil companies to return to Iraq under Baghdads effort to revive production from the fields, which had seen their output plummet after the U.S. invasion. But the financial terms Maliki's government offered weren't particularly attractive, and, more importantly, they didn't allow the oil companies to hold ownership stakes in Iraq's oil reserves.

But Iraq held some of the largest reservoirs in the world and vast tracts of unexplored land. So Exxon and other oil companies agreed to contracts that paid them less than \$2 a barrel — far worse terms than they usually accepted — for rebuilding the country into an oil power.

When the regional Kurdish government offered access to its oil resources under deals that would allow oil companies an ownership stake, several small and midsize energy companies jumped in. And by late 2011, so did Exxon, becoming the only company to enter the northern fields while holding a contract with the Iraqi government.

That move infuriated Maliki, who was anxious to keep control over the foreign investments pouring into Iraq and quell any move that offered the Kurdish government leverage for more independence. It also put U.S. diplomats in an awkward position: Washington was backing a one Iraq policy that maintained Baghdad as the sole power center in the country, even as it courted support from the U.S.-friendly Kurds.

For the Iraqi government, it was a question of national sovereignty, said a former U.S. official. If regions could sign their own [deals], it could lead to a devolution of revenue flows and powers [and] that threatened the viability of Iraq as a unified state.

Tillerson and his team of Exxon executives had negotiated their deal privately with the Kurdish regional officials, and sources familiar with the oil industry in Iraq at the time disagreed about whether Maliki's government was fully informed about those talks.

After the Kurdish deal was concluded in October 2011, Tillerson informed State Department officials during a terse phone call that left some of the officials frustrated and angry. The Exxon chief made it clear that the company intended to proceed with the deal despite certain opposition from the Iraqis.

Still, U.S. officials defended the oil company's new Kurdish contract to the Maliki government. They tried to help preserve Exxon's deal to redevelop the West Qurna fields in Iraq's south, which were seen as vital to rebuilding the country's economy.

Part of the task, officials said, was convincing Iraq that the U.S. government had no control over the activities of a private company like Exxon, even when it contradicted stated U.S. policy. And under provisions of the newly adopted Iraqi constitution, Exxon's contract with the Kurdish government in the city of Erbil did not violate the law, which gave the regional authorities some power to develop their own resources.

I think there was a calculated decision [by Exxon] to see if they could get away with this, another former government source said.

The outrage from Baghdad came quickly. Maliki's media adviser said the Iraqi prime minister would

do anything necessary to preserve the national wealth, warning that the conflict could lead to civil war and that Exxon had to choose between its Iraqi oil contracts or the Kurdish deal. Some of the six northern blocks that Exxon had agreed to explore were in territories whose control was disputed between Iraq and the Kurds, and the oil company quickly agreed to freeze its deal while it talked with Baghdad.

Those discussions dragged on through the rest of the year, finally culminating in Tillerson's face-to-face meeting with Maliki in January 2013, and another one shortly thereafter with Kurdish regional President Masoud Barzani in Switzerland. Finally, Iraq agreed to let the company keep both contracts.

Baghdad did hit the company with one penalty: It canceled a service contract in which Exxon was to have operated a water-injection project for the southern oil fields. But unfortunately for Iraq, that project had been designed to help maintain oil production volumes from wells operated by several companies, and its cancellation ultimately hurt output from some of those wells.

In an email, Exxon spokesman Alan Jeffers said the company followed all laws and regulations during the process in Iraq, and that the issues around management of the oil reserves in the Kurdish region were for the Iraqi people to resolve. We will continue to work with the government of Iraq and are committed to doing business throughout Iraq, he said.

U.S. officials who were involved with Iraq at the time say that despite the initial misgivings of the Maliki government, the tense situation was defused, and the subsequent oil investment by Exxon and companies like Chevron and Total in the Kurdish region helped rebuild its economy and strengthen Iraq overall.

In the end, the U.S. government, Kurdish Regional Government, with the assistance of the major oil companies \* helped to avoid a full split between Erbil and Baghdad, said James Jeffrey, a former U.S. ambassador to Baghdad who later worked as an adviser to Exxon. They helped to contribute to what is now 4.7 million barrels per day of oil production, and helped build out infrastructure, and to build capacity to fight ISIS.

The verdict is not yet in on whether Exxons entry into the Kurdish territory has succeeded, but there are signs that its foray isnt paying off. The company has not reported any oil production from the blocks, and it recently relinquished three of its six concessions.

---

Kaynak/Source: