

The 10 Most Brazen War Profiteers

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The history of American war profiteering is rife with egregious examples of incompetence, fraud, tax evasion, embezzlement, bribery and misconduct. As war historian Stuart Brandes has suggested, each new war is infected with new forms of war profiteering. Iraq is no exception. From criminal mismanagement of Iraq's oil revenues to armed private security contractors operating with virtual impunity, this war has created opportunities for an appalling amount of corruption. What follows is a list of some of the worst Iraq war profiteers who have bilked American taxpayers and undermined the military's mission.

No. 1 and No. 2: CACI and Titan

In early 2005 CIA officials told the *Washington Post* that at least 50 percent of its estimated \$40 billion budget for that year would go to private contractors, an astonishing figure that suggests that concerns raised about outsourcing intelligence have barely registered at the policymaking levels.

In 2004 the *Orlando Sentinel* reported on a case that illustrates what can go wrong: Titan employee Ahmed Fathy Mehalba, an Egyptian translator, was arrested for possessing classified information from the Guantanamo Bay prison camp.

Critics say that the abuses at Abu Ghraib are another example of how the lines can get blurred when contractors are involved in intelligence work. CACI provided a total of 36 interrogators in Iraq, including up to 10 at Abu Ghraib at any one time, according to the company. Although neither CACI, Titan or their employees have yet been charged with a crime, a leaked Army investigation implicated CACI employee Stephen Stefanowicz in the abuse of prisoners.

CACI and Titan's role at Abu Ghraib led the Center for Constitutional Rights to pursue companies and their employees in U.S. courts.

"We believe that CACI and Titan engaged in a conspiracy to torture and abuse detainees, and did so to make more money," says Susan Burke, an attorney hired by the Center for Constitutional Rights (CCR), whose lawsuit against the companies is proceeding into discovery before the Federal Court for the District of Columbia.

The private suits seem to have already had some effect: In September 2005 CACI announced that it would no longer do interrogation work in Iraq.

Titan, on the other hand, has so far escaped any serious consequences for its problems (in early 2005, it pleaded guilty to three felony international bribery charges and agreed to pay a record \$28.5 million Foreign Corrupt Practices Act penalty). The company's contract with the Army has been extended numerous times and is currently worth over \$1 billion. Last year L-3 Communications bought Titan as part of its emergence as the largest corporate intelligence conglomerate in the world.

No. 3: Bechtel: precast profits

The San Francisco-based construction and engineering giant received one of the largest no-bid contracts -- worth \$2.4 billion -- to help coordinate and rebuild a large part of Iraq's infrastructure. But the company's reconstruction failures range from shoddy school repairs to failing to finish a large hospital in Basra on time and within budget.

Recall that USAID chief Andrew Natsios originally touted the reconstruction as a Middle Eastern "Marshall Plan." Natsios should have known that all would not go smoothly with Bechtel in the lead: Prior to joining the Bush administration, he was chief executive of the Massachusetts Turnpike Authority, where he oversaw the Big Dig -- whose costs exploded from \$2.6 billion to \$14.6 billion under Bechtel's lead.

In July, the company's reputation for getting things done unexpectedly plummeted like a 12-ton slab of concrete when Stuart Bowen, the special inspector general for Iraq Reconstruction (SIGIR), released an audit of the Basra Children's Hospital Project, which was \$70 million to \$90 million over budget, and a year and half behind schedule. Bechtel's contract to coordinate the project was immediately cancelled.

Now that the money is running out, American officials are beginning to blame Iraqis for mismanaging their own infrastructure. But as Bowen warns, contractors like Bechtel, the CPA and other contracting agencies will only have themselves to blame for failing to train Iraqi engineers to operate these facilities (esp. water, sewage and electricity) when they leave.

No. 4: Aegis Defense Services

The General Accounting Office (GAO) estimates 48,000 private security and military contractors (PMCs) are stationed in Iraq. The Pentagon's insistence on keeping a lid on military force requirements (thereby avoiding the need for a draft) is one reason for that astronomical growth, which has boosted the fortunes of the "corporate warriors" so much that observers project the industry will be a \$200 billion per year business by 2010.

Yet the introduction of PMCs has put "both the military and security providers at a greater risk for injury," the General Accounting Office says, because PMCs fall outside the chain of command and do not operate under the Code of Military Justice.

George Washington University professor Deborah Avant, author of *Market for Force* and an expert on the industry, says that while established PMCs may act professionally, the government's willingness to contract with a few cowboy companies like Aegis -- a U.K.-based firm whose infamous founder and CEO Tim Spicer was implicated for breaking an arms embargo in Sierra Leone -- only reinforces the fear that U.S. foreign policy is being outsourced to corporate "mercenaries."

An industry insider told Avant that the \$293 million contract was given despite the fact that American competitors had submitted lower bids, suggesting the government wanted to hire the foreign company to shield both sides of the transaction from accountability for any "dirty tricks."

Industry critics, including Rep. Jan Schakowsky, D-Ill., say that, at a minimum, Spicer's contract suggests that government agencies have failed to conduct adequate background checks. While it's hard to say how often PMCs have committed human rights violations in Iraq, the *Charlotte News-Observer* reported in March that security contractors regularly shoot into civilian cars. The problem was largely

ignored until a "trophy video" of security guards firing with automatic rifles at civilian cars was posted on a web site traced back to Aegis.

Although the Army's Criminal Investigation Division says no charges will be filed against Aegis or its employees, critics say that only proves how unaccountable contractors are under current laws. Since the war on terror began, just one civilian, CIA contract interrogator David A. Passaro, has been convicted for felony assault associated with interrogation tactics.

Even The International Peace Operations Association, a fledgling industry trade association that insists the industry abides by stringent codes of conduct has rejected Aegis' bid to join its ranks.

No. 5: Custer Battles

In March, Custer Battles became the first Iraq occupation contractor to be found guilty of fraud. A jury ordered the company to pay more than \$10 million in damages for 37 counts of fraud, including false billing. In August, however, the judge in the case dismissed most of the charges on a technicality, ruling that since the Coalition Provisional Authority was not strictly part of the U.S. government, there is no basis for the claim under U.S. law. Custer Battles' attorney Robert Rhoad says the company's owners were "ecstatic" about the decision, adding that "there simply was no evidence of fraud or an intent to defraud."

In fact the judge's ruling stated that the company had submitted "false and fraudulently inflated invoices." He also allowed the jury's verdict to stand against the company for retaliating against the whistleblowers that originally brought the case under the False Claims Act, the law that allows citizens to initiate a private right of action to recover money on taxpayers' behalf. During the trial, retired Brig. Gen. Hugh Tant III testified that the fraud "was probably the worst I've ever seen in my 30 years in the Army."

When Tant confronted Mike Battles, one of the company's owners, with the fact that 34 of 36 trucks supplied by the firm didn't work, he responded: "You asked for trucks and we complied with our contract and it is immaterial whether the trucks were operational."

The Custer Battles case is being watched closely by the contracting community, since many other fraud cases could hinge on the outcome. A backlog of 70 fraud cases is pending against various contractors. Who they are is anyone's guess (one case was recently settled against Halliburton subcontractor EGL for \$4 million), since cases filed under the False Claims Act are sealed and prevented from moving forward until the government decides whether or not it will join the case. The means some companies accused of fraud have yet to be publicly identified, which makes it difficult for federal contracting officers to suspend or debar them from any new contracts. The U.S. Air Force moved to suspend Custer Battles from new contracts in September 2004, after the alleged fraud was revealed.

In May, however, the *Wall Street Journal* reported that attempts were made to bypass the suspension order by two former top Navy officials who had formed a company that purchased the remnants of Custer Battles. Meanwhile, Alan Grayson, the attorney who filed the Custer Battles case, says that because of orders passed by the CPA, Iraqis have no chance of recovering any of the \$20 billion in Iraqi money used to pay U.S. contractors. The CPA effectively created a "free fraud zone," Grayson says.

No. 6: General Dynamics

Most of the big defense contractors have done well as a result of the war on terror. The five-year chart for Lockheed Martin, for instance, reveals that the company's stock has doubled in value since 2001.

Yet The *Washington Post* reported in July that industry analysts agree that of the large defense contractors, the one that has received the most direct benefit from the war in Iraq is General Dynamics. Much of that has to do with the fact that the company has focused its large combat systems business on supplying the Army with everything from bullets to tank shells to Stryker vehicles, which made their debut during the 2003 invasion.

In July, the *Post* reported that the company's profits have tripled since 9/11. That should make some people happy, including David K Heebner, a former top aide to Army Chief of Staff Eric Shinseki, who was hired by General Dynamics in 1999, a year before the Stryker contract was sealed. According to Defense watchdogs at the Project on Government Oversight (POGO), General Dynamics formally announced it was hiring Heebner on November 20, 1999, just one month after Shinseki announced a new "vision" to transform the Army by moving away from tracked armored vehicles toward wheeled light-armored vehicles, and more than a month prior to Heebner's official retirement date of Dec. 31, 1999.

Less than a year and a half later, Heebner was present for the rollout of the first Stryker in Alabama, where he was recognized by Shinseki for his work in the Army on the Stryker project.

Although the Pentagon's inspector general concluded from a preliminary investigation that Heebner had properly recused himself from any involvement in projects involving his prospective employer once he had been offered the job, critics say the current ethics rules are too weak.

"It's clear that the Army was leaning toward handing a multibillion-dollar contract to General Dynamics at the very time Heebner may have been in negotiations with the company for a high-paying executive position," says Jeffrey St. Clair, author of *Grand Theft Pentagon*, a sweeping review of war-profiteering during the "war on terror."

Heebner's case is similar to Boeing's infamous courtship of Darlene Druyan, the Air Force acquisition officer who was eventually sentenced to nine months in prison and seven months in a halfway house for arranging a \$250,000 a year job for herself on the other side of the revolving door while negotiating contracts for the Air Force that were favorable to Boeing.

This March, Heebner reported owning 33,500 shares in the company, worth over \$ 4 million, along with 21,050 options.

Not everyone has been happy with the outcome of the Stryker contract. Tom Christie, the Pentagon's director of operational testing and evaluation, sent a classified letter to Donald Rumsfeld before it was deployed in Iraq, warning that the \$3 million vehicle was not ready for heavy fire. Meanwhile, the GAO warned of serious deficiencies in vehicle training provided, a concern that turned serious when soldiers accidentally drove the Stryker into the Tigris rivers. Despite public praise from top Army officials, an internal Army report leaked to the *Post* in March 2005 revealed that the vehicles deployed in Iraq have been plagued with inoperable gear and maintenance problems that are "getting worse not better."

Perhaps as insurance against any flap, General Dynamics has added former Attorney General John Ashcroft to its stable of high-powered lobbyists. Working the account are Juleanna Glover Weiss, Vice President Dick Cheney's former press secretary, Lori Day Sharp, Ashcroft's former assistant, and Willie Gaynor, a former Commerce Department official who also worked for the 2004 Bush-Cheney reelection campaign.

No. 7: Nour USA Ltd.

Incorporated shortly after the war began, Nour has received \$400 million in Iraq contracts, including an \$80 million contract to provide oil pipeline security that critics say came through the assistance of Ahmed Chalabi, Iraq's No. 1 opportunist, who was influential in dragging the United States into the current quagmire with misleading assertions about WMDs. Chalabi has denied reports that he received a \$2 million finder's fee, but other bidders on the contract point out that Nour had no prior related experience and that its bid on the oil security contract was too low to be credible. Another company consultant who hasn't denied getting paid to help out is William Cohen, the former defense secretary under President Clinton. Many Iraqis now believe that Chalabi is America's hand-picked choice to rule Iraq, despite being a wanted fugitive from justice in Jordan and despite being accused of passing classified information along to Iran. Iyad Allawi, a potential rival for power in Iraq, has publicly criticized Chalabi for creating contracts for work that he says should be the responsibility of the state.

No. 8, No. 9 and No. 10: Chevron, ExxonMobil and the Petro-imperialists

Three years into the occupation, after an evolving series of deft legal maneuvers and manipulative political appointments, the oil giants' takeover of Iraq's oil is nearly complete.

A key milestone in the process occurred in September 2004, when U.S.-appointed Interim Prime Minister Iyad Allawi preempted Iraq's January 2005 elections (and the subsequent drafting of the Constitution) by writing guidelines intended to form the basis of a new petroleum law. Allawi's policy would effectively exclude the government from any future involvement in oil production, while promising to privatize the Iraqi National Oil Co. Although Allawi is no longer in power, his plans heavily influenced future thinking on oil policy.

Helping the process move along are the economic hit men at BearingPoint, the consultants whose latest contract calls for "private-sector involvement in strategic sectors, including privatization, asset sales, concessions, leases and management contracts, especially those in the oil and supporting industries."

For their part, the oil industry giants have kept a relatively low profile throughout the process, lending just a few senior statesmen to the CPA, including Philip Carroll (Shell U.S., Fluor), Rob McKee (ConocoPhillips and Halliburton) and Norm Szydlowski (ChevronTexaco), the CPA's liaison to the fledgling Iraqi Oil Ministry. Greg Muttitt of U.K. nonprofit Platform says Chevron, Shell and ConocoPhillips are among the most ambitious of all the major oil companies in Iraq. Shell and Chevron have already signed agreements with the Iraqi government and begun to train Iraqi staff and conduct studies -- arrangements that give the companies vital access to Oil Ministry officials and geological data.

Although Iraqi Oil Minister Hussain al-Shahristani said in August that the final competition for developing Iraq's oil fields will be wide open, the preliminary arrangements will give the oil giants a distinct advantage when it comes time to bid.

The relative level of interest by the big oil companies depends on their appetite for risk, and their need for reserves. Shell, for example, has performed worse than most of its peers in finding new reserves in recent years -- a fact underscored by a 2004 scandal in which the company was caught lying to its investors. At this point the key challenge to multinationals is whether they can convince the Iraqi parliament to pass a new petroleum law by the end of this year.

A key provision in the new law is a commitment to using production sharing agreements (PSAs), which will lock the government into a long-term commitment (up to 50 years) to sharing oil revenues, and restrict its right to introduce any new laws that might affect the companies' profitability. Greg Muttitt of Platform says the PSAs are designed to favor private companies at the expense of exporting governments, which is why none of the top oil producing countries in the Middle East use them. Under the new petroleum law, all new fields and some existing fields would be opened up to private companies through the use of PSAs. Since less than 20 of Iraq's 80 known oil fields have already been developed, if Iraq's government commits to signing the PSAs, it could cost the country up to nearly \$200 billion in lost revenues according to Muttitt, lead researcher for "Crude Designs: the Rip-Off of Iraq's Oil Wealth."

Meanwhile, in a kind of pincer movement, the parliament has begun to feel pressured from the IMF to adopt the new oil law by the end of the year as part of "conditionalities" imposed under a new debt relief agreement. Of course pressuring a country as volatile as Iraq to agree to any kind of arrangement without first allowing for legitimate parliamentary debate is fraught with peril. It is a risky way to nurture democracy in a country that already appears to be entering into a civil war.

"If misjudged -- either by denying a fair share to the regions in which oil is located, or by giving regions too much autonomy at the expense of national cohesion -- these oil decisions could fracture, and ultimately break apart, the country," Muttitt suggests.

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