

# Profiteering and the "war on terrorism": Cheney's former firm cashes in on US militarism

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An important component of the growing political crisis within the United States is the relationship between Vice President Dick Cheney and Halliburton Corp., the Fortune 500 oil services and construction company Cheney headed between 1995 and 2000. In addition to accusations of accounting fraud, recent reports have detailed the lucrative relationship between Halliburton and the American military. Cheney's old firm has been a major beneficiary of the expansion of US military operations around the world in the aftermath of September 11.

Over the past several months, the Halliburton subsidiary Kellogg, Brown & Root (KBR) has been involved in a \$16 million project to construct cells at Guantanamo Bay, Cuba for alleged Taliban and Al Qaeda fighters captured in Afghanistan. In Uzbekistan, KBR has a contract to run camps at the Khanabad air base, which has been used extensively in the Central Asian war. Within Afghanistan, the company has been hired to provide services at the Force Provider military camp.

These are only the most significant of Halliburton's recent operations, and they are only the first of what will likely be many contracts landed by the company in connection with the militarist policies of the American government. According to a Pentagon press release, Halliburton has secured a 10-year contract designated as "cost-plus-award-fee, indefinite-delivery/indefinite-quantity service." This means the company has an unlimited contract that guarantees reimbursements on stated costs in addition to a percentage award—a sure source of profit and hundreds of million of dollars in potential revenue.

The history of Halliburton reflects the deepening of ties between the American government, business—especially the oil industry—and the military. It is a prime example of what President Eisenhower once termed the "military-industrial complex," and it is Cheney who, perhaps more than any other individual, personifies this relationship.

As a construction company, Halliburton has traditionally worked primarily for the oil industry, erecting oil wells, pipelines and the like for major oil companies such as Chevron, Texaco and Shell.

For several decades, however, it has also aided in various military projects. It helped build bases in Vietnam and built a naval air station in Texas. The company was one of the main contractors in the construction of the Diego Garcia air base in the Indian Ocean, which has been crucial for American military

operations in Afghanistan and elsewhere. For the most part, up until the 1990s, these government contracts were of secondary importance and did not form a major part of the company's revenue.

It was in the early to mid-1990s that the company's military contracts grew rapidly in number and size. According to articles written in May of this year by Pratap Chatterjee of CorpWatch, a group that monitors business practices, Halliburton was hired in 1992 by the government to present a report on the advisability and feasibility of privatizing certain army functions, such as constructing camps and providing food for soldiers. The report—for which the company was paid nearly \$9 million—was commissioned by the Defense Department, then headed by Cheney, who was serving in the administration of the elder George Bush.

Of course, Halliburton recommended that such privatization go ahead, and became a chief beneficiary of the process. The privatization was one of the largest carried out by the military, and became a windfall for the construction company.

Two-and-a half years after leaving his job at the Pentagon, following Bush's loss to Clinton in the 1992 election, Cheney became chief executive officer of Halliburton, the very company that had benefited so handsomely from Cheney's government actions. Cheney had no prior history in business administration or the construction industry. His sole qualification was his close relationship with the military establishment. According to the current CEO of the company, David Lesar, Cheney "never pitched a particular contract or closed a piece of business. He opened the door."

In addition to Cheney, Halliburton hired Cheney's chief of staff from his Pentagon years, David Gribben, who became the company's chief liaison with the Defense Department. Gribben left with Cheney in 2000 to become director of congressional relations for the Bush-Cheney transition team. Gribben was replaced at Halliburton by Joe Lopez, a retired four-star general, former commander-in-chief of US forces in southern Europe, and close associate of Cheney. Richard Armitage, the current assistant secretary of state, is a former Halliburton consultant.

Cheney and his former Pentagon associates did indeed open many doors. Government business for Halliburton increased sharply after 1995. During Cheney's five years, the company doubled the amount of revenue it received from government

contracts.

Over the past decade, KBR has brought in a total of \$2.5 billion from military activities, a large portion of which has come from its operations in the Balkans, where a contract originally valued at \$4 million has blossomed into a multi-billion dollar deal. In 1999, KBR signed a five-year, \$731 million extension with the Army to continue its work in the region.

Like its current contract in Central Asia, Halliburton's deals with the government are generally cost-plus. In the past, the profits have been as high as 8 percent, compared to an average rate of profit for the economy as a whole of about 3 percent. According to a recent article in the *New York Times*, KBR's services in Central Asia will cost the government 10 to 20 percent more than if the military performed the services itself.

In addition to the military contracts, Cheney's government connections helped Halliburton secure \$1.5 billion in federal loans and insurance subsidies in 1999 and 2000. This compares with the \$100 million Halliburton received during the five years before Cheney became CEO. Many of these loans have been used to construct oil pipelines and wells in Angola, Nigeria and Brazil.

According to a report from the Center for Public Integrity, a corporate watchdog group, the company also used its loans from the American government's Export-Import Bank to finance a project with the Russian company, Tyuman Oil, for extraction of oil from Siberia. The report cites Russian intelligence officers who have linked the Alfa Group, which controls Tyuman, to the Russian mafia and the criminal looting of state-owned enterprises that took place during the early 1990s.

In 2000, KBR was charged with overcharging the government by several million dollars during the mid-1990s, while Cheney was at the helm. The case was based on the testimony of Dammen Gant Campbell, a former contracts manager for KBR. According to T.C. McIntosh, a Pentagon criminal investigator who collaborated with a US assistant attorney in developing the case, KBR "had the upper hand with the Pentagon because they knew the process like the back of their hand." The company "gets away with what it can get away with." A civil settlement of \$2 million was eventually reached, and criminal charges were dropped.

This was not the only case in which suspicions were raised that KBR was defrauding the government by overcharging for its military contracts. The General Accounting Office (GAO), the congressional body that monitors government spending, found that the army did little to oversee its own contracts. According to the GAO, this allowed KBR to benefit from cost increases in its work in the Balkans.

Despite its lucrative government contracts, Halliburton began to run into trouble in the late 1990s, toward the end of Cheney's tenure. Its acquisition of Dressar Industries brought with it numerous unforeseen liabilities related to the use of asbestos in construction projects.

According to a *New York Times* article published in May of this year, the company responded to its earnings troubles by altering its method of accounting for cost overruns. Many of the non-governmental construction jobs that Halliburton completed during this time were pre-quoted: Halliburton promised to complete a job at a certain price. Any costs above this price were subject to

negotiation between Halliburton and the company that had contracted its services. There was no guarantee that the Halliburton would receive any of these funds. Nevertheless, the company began to book all of these overruns as revenue, whereas it previously booked as revenue only that portion which had been promised by customers.

The company has claimed that all of its accounting methods were in line with Generally Accepted Accounting Principles (GAAP). However, the Securities and Exchange Commission (SEC) has begun an investigation that could lead to civil charges.

Halliburton also faces a number of lawsuits from shareholders, including one brought by the right-wing group, Judicial Watch. According to that suit, Halliburton fraudulently increased revenue by \$98 million in 1999, \$113 million in 2000, and \$234 million in 2001.

The accounting manipulations had an immediate financial benefit for Cheney, by delaying a decline in Halliburton's stock price until after he left the firm. The vice president ended up giving away many of his Halliburton stock options, but not before he had cashed in and netted over \$20 million, after taxes. Including the stock options that he exercised, Cheney brought in almost \$30 million during his last two years at the company. Since his departure, Halliburton stock has plunged by more than 75 percent and thousands of workers have been laid off.

In response to these revelations, Cheney's continued tenure as vice president has been openly questioned. A July 12 article in *BusinessWeek* magazine asked, "Will the SEC's Halliburton probe turn the Veep into a White House liability?" A recent editorial in the *Washington Post*, while defending Bush against accusations concerning his relations with Harken energy, was noticeably reticent when it came to defending Cheney's business practices. The *Post* suggested that Cheney should be held responsible for any illicit dealings.

The relations between Cheney and Halliburton are paralleled by many other officials within the Bush administration, including Bush himself. Nevertheless, as part of an effort to save the administration as a whole, Cheney could become a focal point in the conflict within American ruling circles that has been fueled by the wave of accounting scandals and the sharp decline in the stock market.



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