

As Congress approves \$82 billion more

Wholesale corruption exposed in Iraqi contracts

Jamie Chapman
5 May 2005

As the US Congress moves to pass “emergency” funding worth \$82 billion for the occupations of Iraq and Afghanistan, reports of rampant corruption involving private contractors receiving much of these funds continue to surface. Abuses include charges well beyond contract specifications, failure to deliver services charged for, and the most blatant forms of bribery and fraud, the costs of which have been accepted by the recently installed Iraqi government or its predecessors, the interim Iraqi government of Ayad Allawi, and the initial US occupation government, the Coalition Provisional Authority (CPA).

The most prominent case involves Halliburton Corporation, the company formerly headed by Vice President Dick Cheney, who still receives approximately \$195,000 in deferred compensation annually after stepping down as CEO to join Bush’s run for the presidency. Pentagon auditors have demanded reimbursement of \$108 million in overcharges from the company’s Kellogg Brown and Root subsidiary for providing gasoline to the US Army obtained through a Kuwaiti supplier at many times the price locally available in oil-rich Iraq. This and several other fat no-bid contracts awarded to Halliburton and its subsidiaries in the aftermath of the US invasion of Iraq remain in force, while the company disputes the overcharges.

While the case of Halliburton has been the most prominent, it is only one among many cases of fraud and corruption. Among the most egregious involve a small company, Custer Battles, which was founded by an ex-Army Ranger and an ex-FBI man shortly before the Iraq war to solicit reconstruction work as soon as fighting subsided. Its initial contract was to provide armed guards and security screeners at Baghdad International Airport. The firm’s owners claimed they could accomplish the goal in only three weeks’ time, even though they had no demonstrated experience in this field and heretofore had never won a government contract of any kind. Experienced contractors warned that the job required more preparation, but the occupation authorities awarded the contract to Custer Battles, which enjoyed close ties to the Republican administration.

In a short period, the company won seven other contracts worth a \$100 million combined. At its peak the company employed 700 people to handle its Iraq work.

Under a whistleblower protection statute, two former managers have filed a federal lawsuit against the company for war profiteering and defrauding the US government of at least \$50 million. Among the charges are that Custer Battles took possession of Iraqi forklifts abandoned by Iraqi Airways at the Baghdad airport during the invasion. After repainting them to remove any markings, Custer Battles leased them back to the US government as their own equipment.

When one of the managers Robert Isakson refused to participate in the fraud and threatened to turn in the company to the CPA, he was allegedly forced to flee to Jordan by submachine-gun-toting contractors.

The lawsuit also outlines the unabashed lawlessness of company security men, who randomly opened fire on unarmed civilians—including an Iraqi teenager—and crushed a car filled with Iraqi children and adults in order to escape snarled traffic. The “Wild West” attitude prevailing among the US contractors hired to work in Iraq is evinced by another incident in which Custer Battles guards rained bullets on an Iraqi hotel, only to find out afterwards that they had been shooting at each other.

The company was engaged in 2003 to provide security for the distribution of \$4 billion of new currency—weighing 2,400 tons—to replace the former regime’s worthless banknotes that carried the face of Saddam Hussein. Much of that money has never been properly accounted for.

A US Air Force investigation into this and other Custer Battles contracts heard testimony from Pete Baldwin, who oversaw this project and all other company work in Iraq. He, along with Isakson, filed the whistleblower lawsuit against the company. One of the company’s techniques to inflate profits was to run the accounting through shell companies domiciled in the Cayman Islands, Cyprus and Lebanon, but owned by Custer Battles. The shells billed the government huge markups without doing any independent work. The Air Force investigation uncovered that a single “cost-plus” contract that was supposed to have a maximum amount of 25 percent over cost turned a

\$3.7 million cost into a \$9.8 million billing, or a markup of 162 percent.

This example is one of dozens of flagrant abuse of the open-ended contracts that companies seized on to profit off the war and misery visited on the Iraqi people. According to the Associated Press, Custer Battles is one of at least 60 private firms, collectively employing 20,000 people in Iraq and Afghanistan.

The corruption watchdog Transparency International recently warned that Iraq could become “the biggest corruption scandal in history.” In its Global Corruption Report 2005, it describes the US overthrow of Saddam Hussein as “the day that marked the beginning of a new era of intensified theft of state property, corruption and conflicts of interest.” Using the term adopted by the Iraqi people for those who looted buildings after the US takeover in Iraq, the Transparency International report continued, “When asked to give their views on the birth of the new Iraq, the probability is high that Iraqis will refer not only to the widespread looting by ‘Ali Babas’ but also to the looting by Iraq’s new democratic leaders.”

An Iraqi businessman interviewed last month by the *Sydney Morning Herald* talked about the inflation of tender bids worth billions in a common practice to rake off huge profits for both the contractor and government officials. Companies that refused to bribe the relevant minister found themselves shut out of the bidding, Mohammed Jawad said.

The United Nation’s much maligned Oil-for-Food program has been replaced under the occupation with the even more corrupt (and misnamed) Development Fund for Iraq. The former CPA’s inspector general issued a report on January 30, the day of the “democratic” elections in Iraq, conceding that occupation authorities failed to account properly for \$8.8 billion of those funds. “The CPA did not implement adequate financial controls,” he reported. US officials argued that wartime conditions made such controls impossible.

The consequence, according to the businessman Jawad—a Shiite opposed to the former regime of Saddam Hussein—has been an increase in the percentage of corruption, according to his estimate, from 10 percent under Hussein to 95 percent today. “We used to have one Saddam, now we have 25 of them,” he said.

A report released April 29 by the Government Accountability Office (GAO), an arm of Congress, delves into yet another case of overcharging, possibly bordering on fraud, by an American contractor operating in Iraq. The report examines the performance of the Virginia-based CACI International Inc., which provided interrogators and translators to the infamous Abu Ghraib prison. The GAO report did not address the question of abuse of prisoners there, although CACI employees were implicated along with military personnel.

Officials of the US Defense and Interior Departments responsible for the contract failed to require CACI to monitor and verify the most basic information about hours of work. In

addition, CACI increased their fees by upgrading the same employees from the title of “senior analyst” to that of “senior counterintelligence agent,” and from “senior functional analyst” to “interrogator.”

The whistleblower lawsuit filed by Isakson and Baldwin has, not surprisingly, failed to attract the support of the Bush administration’s Justice Department. Bush and Cheney cronies have gained the most from the government-sponsored fleeing operation in Iraq.

Justice Department lawyers maintained a deafening silence on the suit until *Newsweek* published an exposé on Custer Battles last month. A few days later, the Justice Department filed a brief supporting the right of the plaintiffs to seek recourse in US courts. Up until then, Bush administration lawyers were presumed to sympathize with Custer Battles’ contention that US courts did not have jurisdiction because the CPA was a “multinational” entity.

Such a legal argument, of course, was intended to preclude redress of any grievance in any court anywhere in the world, since the new Iraqi government would also be expected to reject jurisdiction over actions or agreements entered into by the now defunct CPA.

The Justice Department’s recent brief is the most limited response possible to political pressure on the Bush administration to address the corruption surrounding the billions of dollars in Iraq reconstruction contracts. Elements of the political elite, represented by those such as Senator Charles Grassley, Republican of Iowa, who pose as anti-corruption fighters, are concerned that the stench surrounding the awarding of contracts in Iraq threatens to jeopardize the entire imperialist project, undermining the already dwindling support for the war.

The Justice Department has yet, however, to take any position on the merits of the plaintiff’s basic charge of egregious company corruption and fraud, in spite of two specific invitations to do so by the judge handling the case, US District Judge T.S. Ellis in Virginia.

Government apologists and would-be reformers claim that Custer Battles is just one particularly bad apple, and that the corruption endemic to Iraq can be weeded out by stiffer legislation against abuse. One Democrat, Representative David Price of North Carolina, introduced legislation last week in response to the GAO report that would require more information on costs and contractors, claiming it would bring greater accountability to the government procurement process.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact