



MINORITY STAFF  
COMMITTEE ON GOVERNMENT REFORM  
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## FACT SHEET

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# The Bush Administration's Contracts with Halliburton

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- The Bush Administration has awarded several extremely large contracts and task orders to Halliburton. Of particular concern are the contracts awarded to a Halliburton subsidiary, Kellogg Brown & Root. GAO reports and other investigations have documented a history of Brown & Root overcharging the taxpayer. Yet despite this history, the Administration has awarded Brown & Root lucrative government contracts — including a recent contract for oil-related work in Iraq that is worth up to \$7 billion and that was awarded secretly and without any competition. The Administration has also awarded contracts worth hundreds of millions of dollars for work in Iraq to a select group of U.S. companies, with only limited competition.
- Halliburton has a unique relationship to this Administration. When Dick Cheney left his position as Halliburton's CEO in 2000 to run for Vice President, he reportedly received company stock worth over \$33 million.<sup>1</sup> He continues to receive deferred compensation payments of over \$160,000 a year from Halliburton.<sup>2</sup>

### History of Brown & Root Problems

- GAO has found serious problems with contract work that Brown & Root did for the Army in the Balkans. In 1997, it found that the Army “was unable to ensure that the contractor adequately controlled costs.”<sup>3</sup> For example, Brown & Root was charging the Army \$86 to fly in \$14 sheets of plywood from the United States. The Army official in charge was “shocked” when he found that out.<sup>4</sup>
- In 2000, GAO found more evidence that Brown & Root was inflating the government's costs — and its profits — by, for example, overstaffing work crews and providing more goods and services than necessary.<sup>5</sup>
- Brown & Root was the subject of a criminal investigation for overbilling the government on another contract. According to a former employee, the company routinely and systematically inflated contract prices it submitted to the government for work at the former Fort Ord military base in California.<sup>6</sup> Brown & Root paid \$2 million to settle that case in 2002.<sup>7</sup>

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- Brown & Root's parent company, Halliburton, has its own problems. The SEC is investigating accounting practices of the company dating back to the Vice President's tenure as its CEO.<sup>8</sup> The company recently restated its earnings for the 4<sup>th</sup> quarter of 2002.<sup>9</sup> And Halliburton has admitted paying \$2.4 million in bribes to a Nigerian official in an attempt to gain favorable tax treatment in the country.<sup>10</sup>

### Defense Department Contracts with Brown & Root

- Despite this troubled history, the Administration has awarded Brown & Root three very lucrative Defense contracts. In 2001, Brown & Root won a \$300-million contract to provide support services to the Navy — despite a bid protest by a rival bidder that GAO upheld.<sup>11</sup> Later that year, it won a ten-year contract with no cost ceiling to provide support services to the Army.<sup>12</sup> Under these contracts, Brown & Root has been asked to do work in Afghanistan and Uzbekistan and to build prison cells for terrorist suspects in Guantanamo Bay, Cuba — even though much of this work could be done more cheaply using Army and Navy personnel.<sup>13</sup>
- In March 2003, the Administration awarded Brown & Root a contract to repair and operate Iraq's oil infrastructure. Normally, federal contracting rules require public notice and full and open competition. But the U.S. Army Corps of Engineers awarded the contract secretly and without any competition.
- The Administration has been reluctant to provide complete, or even basic, information about the contract. While the contract was signed March 8, it was not disclosed publicly until March 24. Moreover, the Corps did not reveal until April 8, in response to a letter from Rep. Waxman, that the contract had a potential value of up to \$7 billion.<sup>14</sup> And it was not until May 2, in response to another request from Rep. Waxman, that the Corps disclosed that the scope of the contract was significantly broader than previously provided information had suggested.<sup>15</sup>
- Based on what the Corps has revealed to date, the contract is worth up to \$7 billion, with the potential profit for Brown & Root worth up to \$490 million. The Corps has said the actual value of the contract may end up being less than that (according to the Corps, it may be “only” around \$600 million). Nonetheless, the fact that the Corps would issue such a large contract without competition is highly unusual.
- Moreover, the contract is far broader than had been initially suggested. Information provided by the Corps and Halliburton had indicated that the contract was for work putting out oil well fires and repairing damage. Halliburton issued a press release on March 24 entitled “KBR Implements Plan for Extinguishing Oil Well Fires in Iraq,” which described the contract work as “assessing and extinguishing oil well fires in Iraq and evaluating and repairing, as directed by the U.S. government, the country's petroleum infrastructure.”<sup>16</sup> The Corps also released information stating that it was in charge of “implementation of plans to extinguish oil well fires and to assess oil facility damage in Iraq” and that it would be contracting with Brown & Root to perform these functions.<sup>17</sup>

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- On May 2, however, the Corps revealed that the contract also includes “operation of facilities” and “distribution of products.” It thus appears that Brown & Root may be asked to operate Iraqi oil facilities and distribute oil products. This raises significant questions about the Administration’s intentions regarding Iraqi oil. The Administration has previously drawn a bright line on Iraqi oil: according to White House spokesman Ari Fleischer, “[t]he oil fields belong to the people of Iraq, the government of Iraq, all of Iraq.”<sup>18</sup> Those sentiments were echoed by Secretary of State Colin Powell and Secretary of Defense Donald Rumsfeld, among others.<sup>19</sup> It now appears that Halliburton or another similar company — and not the Iraqi people — may be making fundamental decisions about how much oil should be produced and who should produce it.
- The Corps has also claimed that the contract is only for short-term emergency work. But the Corps revealed in their April 8 letter that the contract has a two-year term. The Corps also indicated that they are planning to replace the contract with a new, competitively bid contract. In their May 2 letter, however, the Corps disclosed that the Halliburton contract will be in place until at least late August 2003, and possibly until January 2004.
- According to the May 2 letter from the Corps, the new, longer-term contract the Corps is planning to issue will again involve operating facilities and distributing oil. This raises further questions about how much say the Iraqi people will have in making decisions about the country’s natural resources.
- The Corps contract is “cost-plus.” This means that the contractor receives its costs plus an additional percentage of those costs as its profit. These kinds of contracts are particularly susceptible to abuse as they give the contractor an incentive to pad its profits by increasing its costs. As noted above, Brown & Root has a record of overcharging the taxpayer on cost-plus contracts.

### Other Iraq Contracts

- Halliburton is not the only company to benefit from secret, noncompetitive contracts. The U.S. Agency for International Development hand-picked U.S. companies to bid secretly on contracts for work in Iraq. Like the Army Corps contract, the AID contracts for Iraqi reconstruction have been handled with unusual secrecy. AID secretly hand-picked a select few domestic companies to bid on nine contracts for services including airport administration, education, public health, and personnel support. The eight contracts that have been awarded are together worth up to \$1 billion. And they may be worth much more, depending on whether and how they are renewed.
- Halliburton was one of five companies asked by AID to bid on a \$680 million contract to rebuild Iraq. Like Halliburton, the other companies bidding — including Parsons, Fluor, and the eventual winner, Bechtel — are heavy Republican contributors. Between them, these companies reportedly contributed \$3.6 million over the past two election cycles, two-thirds of which went to Republicans.<sup>20</sup> After the controversy over the Army Corps contract, Halliburton announced that it would not bid on the AID contract. It has indicated it may instead opt for a still lucrative but lower-profile subcontracting role.

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- AID has not identified all of the companies that were selected to bid on its contracts and it has given shifting and at times contradictory explanations of why it did not use full and open competition.
- For example, AID has said that it limited the eligible companies to those with a security clearance. But it turns out that some of the companies that were asked to bid did not actually have security clearances. In fact, in one case, AID found out after choosing a contractor that the contractor did not have a clearance.<sup>21</sup> AID awarded the contract to the contractor anyway.<sup>22</sup>
- AID has also said that it is required by federal law to use U.S. companies. However, AID can waive this requirement. In fact, it did so with respect to subcontractors on the Iraq contracts. But AID declined to invite any non-U.S. firms to bid on the actual contracts.

**More information about the Administration's contracts with Halliburton and other companies can be found at [www.reform.house.gov/min/inves\\_admin/admin\\_contracts.htm](http://www.reform.house.gov/min/inves_admin/admin_contracts.htm).**

## Endnotes

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1. *Cheney Gets \$33 Million Exit Package from Dallas-Based Energy Services Firm*, Dallas Morning News (Aug. 17, 2000).
2. White House, *Vice President Dick Cheney and Mrs. Cheney Release 2002 Income Tax Return* (Apr. 11, 2003).
3. General Accounting Office, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program* (Feb. 1997) (GAO/NSIAD-97-63).
4. *Id.*
5. General Accounting Office, *Contingency Operations: Army Should Do More to Control Contract Cost in the Balkans* (Sept. 2000) (GAO/NSIAD-00-225).
6. Complaint for Damages under False Claims Act and Demand for Grand Jury at 7, *U.S. ex rel. Dammen Grant Campbell v. Brown & Root Service Corp.* (E.D. Cal.) (No. CIV-97-1541WBSPAN).
7. Department of Defense, Criminal Investigative Service, *Press Release* (Feb. 7, 2002).
8. Halliburton, *Halliburton Reports SEC Investigation of Accounting Practice* (May 28, 2002); Halliburton, *Halliburton Updates SEC Status* (Dec. 19, 2002).
9. Halliburton, *Halliburton 2002 Fourth Quarter Adjustments* (Mar. 27, 2003).
10. Securities and Exchange Commission, *Halliburton Company Form 10-Q* (Mar. 31, 2003).
11. The rival bidder also claimed that Brown & Root had an unfair advantage because its proposed program manager was an active-duty Navy officer in the command that conducted the acquisition. GAO concluded

- that there was “no evidence that any impropriety or unfair competitive advantage resulted” from the apparent conflict of interest. General Accounting Office, *Matter of Perini/Jones Joint Venture* (Nov. 1, 2000) (GAO Decision B-285906).
12. *In Tough Times, a Company Finds Profits in War*, New York Times (July 13, 2002).
  13. *Id.*
  14. See Letter from Lt. Gen. Robert B. Flowers to Rep. Henry A. Waxman (Apr. 8, 2003).
  15. See Letter from Lt. Gen. Robert B. Flowers to Rep. Henry A. Waxman (May 2, 2003).
  16. Halliburton, *KBR Implements Plan for Extinguishing Oil Well Fires in Iraq* (Mar. 24, 2003).
  17. U.S. Army Corps of Engineers, *The Corps of Engineers’ Role in Combatting Iraqi Oil Fires* (undated).
  18. White House, *Press Briefing by Ari Fleischer* (Feb. 6, 2003).
  19. *Powell Says U.S. Not after Iraqi Oil*, Los Angeles Times (Jan. 23, 2003); *NewsHour*, PBS (Feb. 20, 2003).
  20. Center for Responsive Politics, *Rebuilding Iraq: The Contractors* (undated) (online at [www.opensecrets.org/news/rebuilding\\_iraq/index.asp](http://www.opensecrets.org/news/rebuilding_iraq/index.asp)).
  21. Letter from Bruce N. Crandlemire, Office of Inspector General, U.S. Agency for International Development, to Timothy T. Beans, U.S. Agency for International Development (Apr. 25, 2003).
  22. *Id.*