GOODBYE HOUSTON

CONFLICT, CLIMATE CHANGE & CATASTROPHE

AN ALTERNATIVE ANNUAL REPORT ON HALLIBURTON, MAY 2007

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COVER: Houston skyline taken from Highway 288. Photo: D.L. Licensed under Creative Commons, from Flickr.
Trucks and military convoy in Iraq. Photo: David Martinez, CorpWatch
Oil flares in Southern Iraq. Photo: David Martinez, CorpWatch

GOODBYE, **HOUSTON**

This year Halliburton's chief executive officer David Lesar will say goodbye to his downtown Houston offices to wing his way to Dubai, in the United Arab Emirates. He also may have bid adios to a Texas size tax bill. Last year's revenue of $22.58 billion – up from $20.24 billion in 2005 – was a respectable increase, if not quite the $4 billion leap in revenue reported for both 2003 and 2004.[1] What stands out for the year of Lesar's move was the company's gross profits: they jumped more than a billion dollars, triple what they were in 2004. Unfortunately for the company, much of that extra money has had to be paid out to the federal government in taxes. Tax experts say that the move to Dubai, even though the company is still registered in the U.S., may slash the company's contribution to the U.S. Treasury in years to come.

Yet the biggest financial change that the company will see this year is the spin-off of Kellogg, Brown & Root (KBR), the subsidiary with multi-billion dollar logistics contracts to supply food and living accommodations to U.S. soldiers in Iraq. KBR provided 43 percent of Halliburton's revenue in 2006, but just seven percent of its profits.[i] The military support contract also has been the primary source of the company's negative image for over-charging and waste. Last July the military support contract was canceled five years early and put out to bid. The long litany of alleged abuses may well explain why a sizeable chunk of the new work in Iraq is has already been awarded to other companies. These continuing problems also explain why Halliburton's stock price has lost a fifth of its value since April 2006.

Our 2007 alternative annual report, the fourth in the series that began in 2003, adds new information to the previous three reports, which are available for download on our website, http:/www.corpwatch.org. (We'll briefly re-cap that material, but urge shareholders and others to read the earlier reports for the full story of Halliburton's numerous scandals.)

This year we take a hard look at several new scandals that the company is embroiled in: lawsuits launched to protest the company's alleged waste in Iraq, new military audits which show deliberate concealment of high overheads, and claims by workers who allege the company failed to adequately protect them in Iraq. The company's private security sub-contractors have also been accused of recklessly shooting at Iraqi civilians.

Outside Iraq, Halliburton has also been the subject of numerous investigations. Some of the long-standing charges are finally being settled. Halliburton has agreed to re-pay U.S. taxpayers for overcharging in the Balkans. Other scandals endure, most notably potential charges for orchestrating a massive bribery scheme related to a huge natural gas project in Nigeria. New accusations have also surfaced: in Algeria the company's no-bid contracts are being investigated, while in Brazil the company is accused of installing faulty sub-sea bolts that will costs hundreds of millions of dollars to replace. In the western U.S., Halliburton's coal-bed methane technology continues to plague rural communities.

Houston skyline taken from Highway 288.

Photo: D.L. Licensed under Creative Commons, from Flickr.

Halliburton sign.

MILITARY CONTRACTS

Halliburton has billed the U.S. government for more than $20 billion worth of work in Iraq since the 2003 invasion, with $7.1 billion, or a third of its revenue, coming in 2004. Almost 90 percent of the money has been for logistical support for the U.S. military under the Logistics Civil Augmentation Program (LOGCAP). Although the revenue has fallen since 2004 (partly because the infrastructure building is now mostly complete), the company's profits margins in Iraq have risen. The $75 million in 2004 profits swelled to $172 million in 2005 on revenues of $5.4 billion, dropping slightly to $166 million in 2006. (Despite the small drop, the company actually generated a higher percentage of profit last year.)[2]

At the 2006 annual meeting in Duncan, Oklahoma, Halliburton's chief financial officer Cris Gaut announced plans to spin-off the division that does this infrastructure and service contracting work: Kellogg, Brown & Root (KBR), predicting that the newly separated company would do better financially. In an investor call late last year, David Lesar repeated this mantra: "We still believe that the complete separation will unlock additional shareholder value."[3] So far this prediction has failed. On November 16, 2006, KBR was listed on the New York Stock exchange at $21 a share. Five months later, despite climbing as high as $27 around Christmas, the share price dropped back where it started.[4] Company officials have trumpeted the fact that a share exchange offer was over-subscribed, but the fact of the matter is that neither Halliburton nor KBR's shares are doing particularly well. Indeed "short-sellers," who "bet" that stock prices will fall, are having a field day selling record numbers of the company's shares.

KBR's current prospects are part and parcel of its origins. Allegations of overcharging go back to the Vietnam Builders project in the 1960s, when Brown & Root was acquired by Halliburton. It was then the lead company in RMK-BRJ, a consortium that built most of the U.S. military infrastructure for the war in Southeast Asia. (Interestingly, a young Congressman named Donald Rumsfeld made these accusations.)[5] Fast-forward to the end of the 20th century, when Brown & Root morphed into KBR under former CEO Dick Cheney, and won military support contracts from Haiti and Somalia, to former Yugoslavia and Afghanistan, and most recently, in Iraq.

Today KBR is best known for the no-bid Restore Iraqi Oil (RIO) project, awarded in February 2003, just before the U.S. invaded Iraq and followed up by a second contract. All told, the two RIO contracts made the company $2.5 billion. We described the dubious circumstances of this award in *Houston, We Still Have A Problem*, our 2005 alternative annual report. This project has proven to be a disaster, as we recounted in *Hurricane Halliburton*, our 2006 alternative annual report, and the company was removed from the project and replaced after botching much of the repair.

But, as noted earlier, Halliburton's main money spinner in Iraq is the military support contracts. Unfortunately for Halliburton, in July 2006, the Pentagon canceled the multibillion dollar LOGCAP projects and put them out to bid five years ahead of schedule.[6] The new LOGCAP project will have four components, to be held by four different companies, with British-based Serco in charge of overall management.[7] The next few months will determine if KBR will win any of the components. Given that much of the work was done by sub-contractors including Eagle Global Logistics of Houston (shipping), PWC of Kuwait (trucking) and Prime Projects International (labor supply), these companies may stand a better chance of winning prime contracts.

We highlighted the first accusation of fraud, in 2004 in our first alternative annual report, *Houston, We Have A Problem*. Company whistle-blowers, including Henry Bunting and Marie deYoung, exposed overcharging on petty items like towels and soda, as well as military auditors who revealed that the company was overcharging for fuel supplied to Iraq. In the last two years high-level whistle blowers like Bunnatine Greeenhouse at the U.S. Army Corps of Engineers have emerged, indictments have been handed down for fraud including by management staff Jeff Alex Mazon and Stephen Lowell Seamans, as well as by suppliers Christopher Joseph Cahill and Mohammad Shabbir Khan. In the next few pages, we will describe some new allegations of waste, fraud and abuse brought against the company.

But first, we want to look at one of the most notable and tragic consequences of Halliburton's work in Iraq: the death and injury of many of its workers, particularly truckers.

Khalil Bendib, CorpWatch

TRUCKERS KILLED, WRONGFUL DEATH LAWSUIT REJECTED

On September 20, 2005, the ambush of a Halliburton convoy soon after it departed Camp Anaconda, near Balad, Iraq, resulted in the deaths of three truckers: Keven Dagit, Sascha Grenner-Case, and Christopher Lem.

The incident occurred after the military commander took a wrong turn, and the convoy ended up in an unfamiliar neighborhood. One of the surviving truck drivers, Preston Wheeler, says that Halliburton did not provide any of the drivers with maps or even rudimentary drawings of the location. He says that when he was hired, Halliburton promised the trucks would be equipped with bullet proof glass and armed guards on every third truck.

"That's a lie, it's a gimmick, a sales pitch," Wheeler told *ABC World News Tonight*.[8]

A video of the ambush, recorded by a camera installed in Wheeler's truck, shows the convoy entering tiny Iraqi towns along the highway where children begin throwing rocks at the trucks. The Halliburton drivers are heard on the radio communicating with each other: "KBR just took two rocks [on the] right side, no glass broke," said one driver.[9]

"We made a wrong turn. Our military took us the wrong way," Wheeler tells his camera. A soldier is heard on the radio saying, "My map is evidently wrong." So, the convoy was forced to turn-around and head back through the same town that only a few minutes earlier had greeted it with "raining rocks." "We're going back through hell," Wheeler laments.

Suddenly, a bomb explodes and a bullet hole is seen in Wheeler's windshield. "God damn, IED on the left side!" he reports on the radio, using military jargon for improvised explosive device to refer to a bomb. Small arms fire is heard again. “Jesus Christ!” Wheeler cries. “Help us all, Lord!”

Soon after, the truck ahead of him overturns. “I am down!” Wheeler screams into the radio. Small arms fire continues. “Truck Five cannot move!” he says. “Please help me! I’m taking fire!” As the military fails to offer aid, he angrily screams into the radio for help: “I’m fixing to get killed, God dammit! I cannot move! Truck Five cannot move! Copy? I am getting shot! Someone get their ass back here now, please!”

“Sir, I have no gun back here and ... I am by myself,” Wheeler, hoping the military will hear his plea, reports into the radio. (Halliburton employees are forbidden to carry weapons.)

Three drivers were executed in front of Wheeler, who eventually managed to escape. When he returned, a Halliburton security guard wanted to delete the video of the ambush so that it would not become public, he told reporters later.

What is astonishing about this incident is that it took place 17 months after another fatal attack on Halliburton truck drivers on April 9, 2004, and six months after the drivers who survived the first attack sued Halliburton in federal courts in Texas. (See 2005 alternative annual report: Houston, *We Still Have A Problem*.)

The March 2005 lawsuit alleges that Halliburton bears responsibility because the company dispatched the drivers even though it had been informed that the conditions that day were too dangerous for convoys. But the surviving truckers, and the relatives of their killed colleagues, have had little luck receiving damages from the company so far. In September 2006, U.S. District Judge Gray H. Miller, a Bush appointee, threw out the April 9 lawsuit. “The contracts show that the Army, not the defendants, was responsible for the security of the convoys,” he wrote.

T. Scott Allen Junior, who represented the plaintiffs, says that logic gives Halliburton carte blanche in Iraq. “The way I read this decision, anything Halliburton does in Iraq is not subject to oversight or review,” Allen said.[10]

The truckers have appealed the verdict. Ironically, Halliburton offers its workers injured in Iraq the opportunity to apply for the Pentagon’s Defense of Freedom medal, a seemingly honorable recommendation for those returning home with medical injuries. The worker is asked to sign a release form so Halliburton can provide the Pentagon with all the personal medical records needed for the award consideration process. But less conspicuous on the form is paragraph number 9 that absolves Halliburton of all legal liability and forbids the worker from suing even if the company’s criminal negligence caused the injury.

Photo: Woodkern

Triple Canopy security guards, Baghdad.

PRIVATE SECURITY ENDANGERS CLIENTS

One of Halliburton’s private security sub-contractors is Triple Canopy of Virginia. While the trucks lack sufficient protection, these private security guards have allegedly targeted Iraqi civilians for sport, attempting to kill them, while doing work for Halliburton. A lawsuit filed in Virginia in late 2006, by two former security guards, Shane B. Schmidt and Charles L. Sheppard III, alleged that their boss, Jacob C. Washbourne, fired at Iraqis on the afternoon of July 8, 2006.[11]

Washbourne, a 29-year old ex-Marine, led one of two teams on Triple Canopy’s “Milwaukee” project, a contract to protect Halliburton executives on Iraq’s dangerous roads. He was paid $600 a day to command a small unit of guards armed with M-4 rifles and 9mm pistols, the same caliber weapons used by U.S. troops, according to an investigation conducted by the *Washington Post*.[12]

Washbourne’s leadership was already under question before the shooting incident. His former co-workers accuse him of heavy drinking at the Gem, the company bar in Baghdad.

He has also been accused of previous shootings. On June 2, 2006, Washbourne was leading a convoy to a State Department compound in Hilla, about 60 miles south of Baghdad. The Suburban vehicle in which he was a passenger jumped a curb

Photo: Associated Press

Blackwater employees practice their reaction to a car ambush, Moycock, North Carolina.

at a high rate of speed, shattering the axles and halting the exposed sports utility vehicle in the middle of the highway. When a blue civilian truck headed toward the convoy, Washbourne fired more than a dozen rounds into the oncoming truck with his M-4, wounding the driver.

The July incident was more deliberate, say co-workers. Washbourne, as team leader, led a pre-mission briefing in the parking lot that morning, they said. As the briefing concluded, according to a witness, Washbourne cocked his gun and said, "I want to kill somebody today." When a Fijian co-worker asked why, the *Washington Post* quotes Washbourne reportedly saying: "Because I'm going on vacation tomorrow. That's a long time, buddy."

On the way to the airport, according to Schmidt and Sheppard, Washbourne remarked, "I've never shot anyone with my pistol before." In witness statements provided to the military, Schmidt and Sheppard wrote that as the convoy passed the taxi, Washbourne pushed open the armored door, leaned out with his handgun and fired "7 or 8 rounds" into the taxi's windshield.

"From my position as we passed I could see [from spidering of the glass that] the taxi had been hit in the windshield," Schmidt wrote. But because of the "pace we were traveling, I could not tell if the driver had been hit. He did pull the car off the road in an erratic manner."

Sheppard said Washbourne was laughing as he fired.

Washbourne denies the allegations. "They're all unfounded, unbased, and they simply did not happen," he told the Post, during an interview near his home in Broken Arrow, Oklahoma. Lee Van Arsdale, Triple Canopy's CEO, told the Post that Triple Canopy was unable to determine the circumstances behind the shootings, especially since no deaths or injuries were recorded by U.S. or Iraqi authorities.

ARE THE SECURITY DETAILS LEGAL?

Halliburton has separately come under scrutiny by the U.S. Congress for using private security guards. U.S. Army officials have said that Halliburton's main contract in Iraq did not allow them to sub-contract armed private security companies. Instead Halliburton is supposed to rely on the military to provide security. But Halliburton claims that its Army contract does not prohibit subcontractors from hiring private security services.

(background) Blackwater Improvised Explosive Device simulation. Photo: Woodkern

In early February 2007, the U.S. Army withheld about $20 million in payments to Halliburton for hiring companies including North Carolina-based Blackwater. Halliburton estimates that it may eventually have to return up to $400 million.[13]

Halliburton's own managers have internally acknowledged the problem. In a June 2004 e-mail, James Ray, the company's lead administrator for the contract, told other company officials, "Our contract states that the government provides us with force protection. ... We should not attempt to effect a material change in our contract with the government by hiring a company that we know uses armed escorts. That company is an agent of KBR and if anything happens, KBR is in the pot with them. Even with lipstick, a pig is a pig. This decision is something to address squarely. ... I do not recommend proceeding with this option without senior management's approval."

Photo: Halliburton Watch

OVERCHARGING FOR WORK...

In July 2004 testimony before the U.S. House of Representatives Committee on Government Reform, former Halliburton truck driver and convoy commander David Wilson claimed that six months into the war, Halliburton failed to "have the right personnel and equipment in place." He said "KBR had virtually no facilities in place to do maintenance on the trucks. It was like their whole preparation was to buy the trucks, hire the drivers, and let the rest take care of itself."[14]

Wilson said that Halliburton failed to provide simple vehicle parts such as oil filters and declared oil changes "out of the question." As a result, Halliburton employees were forced to abandon brand new $80,000 trucks in the middle of the desert whenever a minor equipment problem occurred. Wilson testified that Halliburton once removed all the spare tires on his truck so that when he got a flat tire he was forced to abandon the truck. "In my time on the road," he said, "I saw disabled trucks — or what was left of them — abandoned on the side of the road on a daily basis" when they experienced mechanical problems.

Photo: Department of Defense

Pakistani truck drivers on contract with Halliburton in Iraq.

Another Halliburton convoy truck driver, James Warren, testified that "KBR didn't seem to care what happened to its trucks." He said Halliburton would strip the spare tires from brand new Mercedes and Volvo trucks. As a result, flat tires meant abandonment, not repair, of the trucks. He said "it was common to torch trucks that we abandoned ... even though we all carried chains and could have towed them to be repaired" to prevent them from being stolen by "insurgents."

Wilson also described situations where Halliburton would transport trucks without any cargo inside. "One time, we ran 28 trucks and only one had anything on it," he said. "Nobody knew why we were hauling around empty trucks, but it definitely caused extra wear and tear, which just made maintenance a bigger problem." This practice also unnecessarily exposed the truckers to danger.

Halliburton fired Wilson after accusing him of failing to report when trucks in his convoy ran down civilians. In his defense, he said "KBR and the military made clear to everyone that this was what we were supposed to do" if convoys were attacked by insurgents.

Both Wilson and Warren also said that U.S. Army soldiers would regularly steal items from the trucks at night. Since there was no manifest showing the contents of the trucks, it was impossible for Halliburton to document how many items were stolen. Warren's convoy commander said, "Don't worry about it. It's the Army stealing from the Army." Warren called Randy Harl, the head of KBR, to complain. Harl expressed dismay, but never took action. Instead, Halliburton fired Warren a few weeks later, saying he violated company policy by running civilians off the road. "I felt like I was being pushed out the door because they just wanted me gone," he said.

Halliburton executives, who also testified at the July 2004 hearing, claimed that trucks were routinely supplied with oil filters and spare tires and that no trucks had been abandoned because of maintenance problems. They said only the military, not Halliburton, could give orders to abandon trucks.

In November 2006, Wilson and Warren filed a lawsuit against Halliburton, alleging that the company overcharged the military by $30 million as a consequence of its failure to maintain the trucks properly. The suit also alleges that the company unlawfully fired the two men to silence them.

The lawsuit was filed under the False Claims Act (often called a "*qui tam*" lawsuit), a federal law giving employees authority to sue employers who defraud the government. The plaintiff-employee may receive a percentage of any damages awarded. The U.S. Justice Department has the option of joining lawsuits based on the False Claims Act, but declined to join this one.

Photo: Sakura Saunders, CorpWatch

Morale, Welfare and Recreation facility run by Halliburton at Camp Bonsteel, Kosovo.

On February 6, 2007, the court threw the lawsuit out and ordered Wilson and Warren to take up their dismissal with arbitrators, as specified in their contract.[15]

... OVERCHARGING FOR PLAY

Halliburton billed millions to U.S. taxpayers for nonexistent recreational activities in Iraq, a company whistleblower charged in another *qui tam* lawsuit filed in 2005 and made

FUEL PAYMENTS RESOLVED, WASTE CONDEMNED

In November 2005, a United Nations-administered International Advisory and Monitoring Board (IAMB) recommended that Halliburton should return to the government of Iraq as much as $208 million in payments for fuel-supply contracts for the summer of 2003. It concluded that the work was carried out at inflated prices or done poorly.

Military audits had revealed that Halliburton was charging an average of $2.64 per gallon of oil, and sometimes as much as $3.06. By comparison, for similar jobs, the Defense Department's Energy Support Center was paying $1.32 per gallon, and SOMO, an Iraqi oil company was laying out 96 cents a gallon.[16] Between May and late October 2003, Halliburton spent charged $383 million for 240 million gallons of oil—an amount that should have cost as little as $230 million.

An international auditing firm, Crowe Chizek of Chicago, was hired to investigate the payments. In November 2006, Halliburton won a reprieve on the gas issue when Crowe Chizek issued a statement that the "the settlements were reasonable." But the investigation severely criticized Halliburton for leasing a fleet of tanker trucks from Altanmia at a cost of up to $25,575 a month for each truck "irrespective of the number of deliveries" to Iraq. Between 200 to 1,800 trucks racked up charges as they sat idle for long stretches on the border which "in some instances, were as high (as) 86 percent" of the time billed.

(background) Gas station in Baghdad.

Photo: David Martinez, CorpWatch

public in 2006.[17] The whistleblower, Julie McBride, worked for Halliburton in 2004 as a "morale, welfare and recreation" (MWR) coordinator at a Marine base in Falluja, Iraq.

Her lawsuit says the military was billed according to the number of Marines who used the MWR facility, but that the company deliberately and falsely inflated that figure. For example, a person who used a computer in the recreation center was counted as one customer, and counted again when using the weight room. The center included a weight room, video games, an Internet cafe, a library and a phone bank.

"I was present in Iraq on February 27, 2005, when the "Boots in the Door" count at the MWR facility in Falluja was about 330," she told a Congressional hearing. Yet, she added, these totals were then combined for a Fitness Center headcount "in excess of 1,600, or five times the actual number of troops that came into the facility."[18]

McBride also claims that Halliburton charged U.S. taxpayers for a 2005 Super Bowl party meant for the troops, but that the company employees absconded with the food and widescreen television and launched their own private football party. "McBride witnessed [the disappearance of] a large amount of food that was ordered specifically for a Super Bowl party for the military," the suit says. "About 10 large metal tubs full of tacos, chicken wings, [and] cheese sticks were taken from the military party site to a KBR camp for a KBR Super Bowl Party for KBR employees."

"It wasn't double-dipping, but triple dipping, or even quadruple billing," the suit claims. McBride was fired for lodging several complaints about Halliburton's accounting practices and was kept under guard until she was escorted to an airplane and flown out of the country, the lawsuit adds.

"The administration is not enforcing the laws against fraud when it comes to contractors in Iraq," said Alan Grayson, the attorney who filed the suit, told the *Los Angeles Times*. "When it comes to seeing that the law is executed, the Bush administration is a no-show."[19]

"The claims included in this lawsuit clearly demonstrate a complete misinterpretation of facts as well as a lack of understanding of KBR's contractual agreements with its customer, the U.S. Army," Halliburton spokesperson Melissa Norcross says. Halliburton's official annual report states: "Our investigation is ongoing. However, we believe the allegations to be without merit, and we intend to vigorously defend this action."

OIL RECONSTRUCTION CONTRACTS

The U.S. taxpayer and the Iraqi government paid out millions of dollars in overhead costs and as much as half of the budgeted funds to cover the costs of idle Halliburton workers in Iraq while they twiddled their thumbs for as long as nine months waiting for orders to start work.

In October 2006, the Special Inspector General for Iraq Reconstruction (SIGIR), an independent agency created to investigate financial abuses in Iraq, published a study of $1.3 billion in reconstruction contracts won by five companies. Halliburton incurred the highest proportion of overhead for its $296 million in oil-facility contracts. (The actual costs for Halliburton projects, which are to be published soon, are expected to be even higher, according to the report.)[20]

Halliburton pointed the finger of blame at the government, saying that it had failed to issue specific administrative task orders after the workers were deployed. "It is important to note that the Special Inspector General is not challenging any of KBR's costs referenced in this report," Halliburton spokesperson Melissa Norcross wrote in a reply to the *New York Times*. "All of these costs were incurred at the client's direction and for the client's benefit."[21]

Halliburton's military overseers partially agreed with the company and disagreed with the investigators. Major General William McCoy, who was in charge of the U.S. Army Corps of Engineers at the time, said that work such as "waiting for concrete to cure" could still be taking place during what seem to be periods of inactivity, so a quiet period "does not mean that the project is not moving forward."

PUBLIC INTEREST DATA STAMPED "PROPRIETARY"

SIGIR also released another report in October 2006,[22] saying that Halliburton was withholding information from federal investigators. Halliburton claimed the data were proprietary—meaning they would unfairly help competitors —and therefore protected by the Federal Acquisition Regulations (FAR). These "trade secrets" included such mundane items as how many people Halliburton fed each day in its dining facilities and how many gallons of fuel it delivered.

SIGIR says that Halliburton routinely stamped nearly all of the data it collects on its work as proprietary. "The use of proprietary data markings on reports and information submitted by KBR to the government is an abuse of the FAR and the procurement system," wrote the investigators. "KBR is not protecting its own data, but is in many instances inappropriately restricting the government's use of information that KBR is required to gather for the government."

The investigators also noted that Halliburton deliberately slowed down their work by releasing data in gigantic tables rather than in the kind of commonly used database programs that allow auditors to check the numbers.

Nor is this the first time the company has come under fire for using the "proprietary" label to hide information. A military audit in 2005 was heavily redacted at the specific request of Halliburton because it contained numerous criticisms of the company's work in Iraq, including $108 million in overcharges.[23]

Not surprisingly, in an email response to SIGIR, Halliburton said it "has encountered situations in the past where extremely competition-sensitive data has found its way to the press and/or to the internet. As a result, this data is being properly protected." It justified the unusual step of marking nearly all of its information as "proprietary" on grounds that "disclosure would cause a foreseeable harm" to operations.

Halliburton spokesperson Cathy Mann told the *New York Times* that, "KBR has included proprietary markings on the majority of its data and property in support of its government contracts for the U.S. Army for at least the last decade."[24]

Henry Waxman, a Democratic Congressman from California, said the new memo showed how the company had tried to conceal "corporate profiteering during wartime." Waxman heads the U.S. House of Representatives Committee on Government Reform and is a leading critic of Halliburton in Congress.

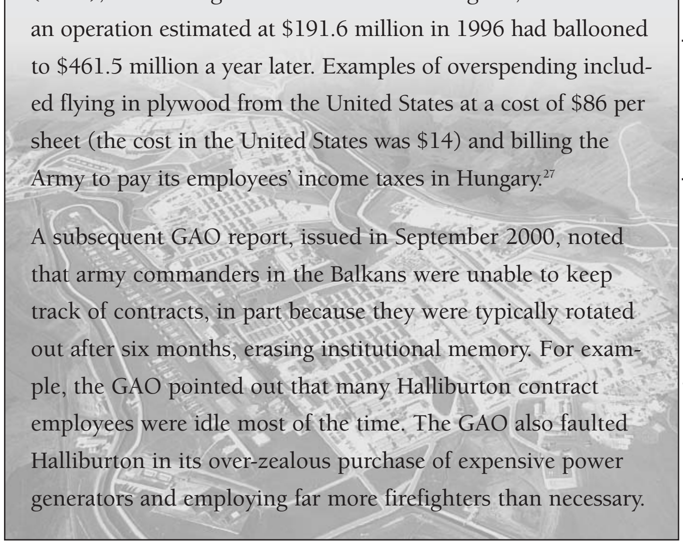
BILLS FROM **THE BALKANS**

Camp Bondsteel, a short distance outside Pristina, Kosovo, in former Yugoslavia, was the first major U.S. base constructed and run entirely by a private contractor: Halliburton. The base, which was set up in June 1999, is a small city complete with temporary housing for 7,000 soldiers, dining facilities, roads, its own power generators, houses, satellite dishes, and a helicopter airfield.[25]

In November 2006, Halliburton paid the government $8 million to resolve allegations of overbilling, made under the federal False Claims Act. Charges included double-billing, inflating prices, and providing unsuitable products during the construction of Camp Bondsteel.[26]

A February 1997 study by the General Accounting Office (GAO), the investigative arm of the U.S. Congress, showed that an operation estimated at $191.6 million in 1996 had ballooned to $461.5 million a year later. Examples of overspending included flying in plywood from the United States at a cost of $86 per sheet (the cost in the United States was $14) and billing the Army to pay its employees' income taxes in Hungary.[27]

A subsequent GAO report, issued in September 2000, noted that army commanders in the Balkans were unable to keep track of contracts, in part because they were typically rotated out after six months, erasing institutional memory. For example, the GAO pointed out that many Halliburton contract employees were idle most of the time. The GAO also faulted Halliburton in its over-zealous purchase of expensive power generators and employing far more firefighters than necessary.



(background) Aerial photo of Camp Bondsteel. Photo: Department of Defense

INJURED SOLDIERS GET **POOR TREATMENT** FROM FORMER **HALLIBURTON** EXECUTIVES

A private military contracting company headed by a former senior Halliburton executive has been accused of providing poor and decrepit hospital conditions for injured war veterans at the Walter Reed Army Medical Center.

Photo: White House

President Bush meets with military veterans at Walter Reed hospital.

Florida-based IAP Worldwide Services, headed by former Halliburton executive Al Neffgen, came under intense scrutiny after a *Washington Post* investigation found poor conditions and neglect at the 98-year old hospital which the company was running under a $120 million "cost-plus" contract for support services and facilities.[28]

Neffgen was previously employed as the chief operating officer for KBR Government Operations, a subsidiary of Halliburton that handles the company's military contracts in Iraq. "We have performed, and performed well, for our soldiers and our country," he told a congressional committee investigating Halliburton's oil price rip-offs in 2004. "While we have undoubtedly made some mistakes, we are confident that KBR has delivered and accomplished its mission at a fair and reasonable cost," he said.[29]

Neffgen was a senior executive with Halliburton when it was serving contaminated food at military dining halls and providing the troops in Iraq with bathing water contaminated with human fecal matter.

Other IAP WorldWide employees who previously worked for Halliburton are David Roh, director of IAP's global strategy, and previously director of KBR's operations for supporting the provision of engineering and logistics services to U.S. forces deployed overseas; David B. Warhol, IAP Vice President of Human Resources, previously Halliburton's director for Americas Region Staffing and Resource Development; Craig Peterson, IAP senior vice president for Major Programs (including bidding for LOGCAP work), formerly vice president of KBR's Contingency and Homeland Operations; and David Swindle, IAP president, previously vice president of business acquisition and national security programs for KBR.[30]

(background) President Bush meets with military veterans at Walter Reed hospital.

Photo: White House

THE **DUBAI** GAMBIT

Photo: Neil O'Halloran

Dubai skyline.

On March 11, 2007, Halliburton CEO David Lesar made a surprise announcement. He told the regional energy conference in Bahrain that the company would move its corporate headquarters to Dubai, in the United Arab Emirates, to strengthen its activities in the region.[31] The company says it will still be incorporated in the U.S. but may seek an additional listing on a Middle Eastern stock exchange.[32]

Industry experts say the move makes sense. "There's not much oil in Texas any more," Dalton Garis, a U.S. energy economist at the Petroleum Institute in Abu Dhabi, told the Associated Press. "Halliburton is in the oil and gas industry, and guess what? Sixty percent of the world's oil and gas is right here. If they didn't move now, they'd have to do it later."[33]

Oil analysts note that despite the fact that Halliburton generated about 38 percent of its $13 billion oil field services revenue in the region, it isn't doing as well as its chief competitor, Schlumberger, which earned more profit outside North America. Chinese oil field services competitors are also swiftly moving into the Middle East.[34]

Halliburton has maintained several offices in the city of Dubai for years and a number of its sub-contractors, such as Prime Projects International (PPI) are based in Dubai. (The activities of PPI, which supplies low wage labor for Halliburton projects in Iraq, are detailed in the 2006 alternative annual report, *Hurricane Halliburton*.)

Why Dubai? It is the busiest port in the region and the main hub for companies setting up business in the Middle East. But there are other obvious advantages.

Martin Sullivan, contributing editor at the nonpartisan *Tax Notes* magazine, said relocating to the no-tax jurisdiction of Dubai would change Halliburton's tax situation "significantly," even though the company would still be registered in the U.S. By relocating its top executives to Dubai, Halliburton can argue that a portion of its profits should be attributed to the no-tax jurisdiction, he said.[35]

Senator Hillary Clinton, a Democrat from New York, was among several Congress members who issued a statement in response to the Halliburton announcement. "I think that raises a lot of serious issues we have to look at," she said. "Does this mean they are going to quit paying taxes in America? They are going to take all the advantage of our country but not pay their fair share of taxes?"[36]

"They get a lot of government contracts," she continued, "Is this going to affect the investigations that are going on? Because we have a lot of evidence of misuse of government contracts and how they have cheated the American soldier and cheated the American taxpayer. They have taken the money and not provided the services, so does this mean that we won't be able to pursue these investigations?"

Charlie Cray, co-director of Halliburton Watch and director of the Center for Corporate Policy, notes that the U.S. has no extradition treaty with the United Arab Emirates.[37]

DRESSING FOR DUBAI

Halliburton instructs employees traveling abroad not to wear clothing that could reveal their U.S. nationality or employment with the company's KBR subsidiary.

"Dress to Impress: Do you know what to wear when you travel?" an article in the August issue of the company's magazine *The Monthly Mirror*, reminds employees: "Do not wear any clothing with the KBR logo or any other logos that might identify you as an American contractor such as those logos of OIF (Operation Iraqi Freedom) and OEF (Operation Enduring Freedom). This is also a good rule anytime you are traveling throughout the Middle East or Central Asia."[38]

The article further states that "offensive" clothing is impermissible in the Arab world but that "hats are permissible as long as they do not have a KBR logo or any other logo that might identify a person as an American contractor."

The advice seems understandable considering that the Pentagon's own advisory board admitted in a 2004 report[39] that the Bush administration has "failed" to win the "hearts and minds" of the Iraqi people or Arab Muslims generally, and that President Bush's perceived "hypocrisy" has intensified Muslim hatred for the U.S.

"When American public diplomacy talks about bringing democracy to Islamic societies, this is seen as no more than self-serving hypocrisy," the Pentagon's report asserts. "Moreover, saying that 'freedom is the future of the Middle East' is seen as patronizing."

Dress to Impress

Do you know what to wear when you travel?

Not Appropriate | **Appropriate**

Hats with KBR logos and hats worn on the flighline are prohibited

Clothing with military logos are prohibited

Shorts are prohibited

Open-toed shoes are prohibited

Ok so maybe you don't need to "impress" but you do need to dress appropriately. When traveling in, out, or throughout the theater of operations there is much to be mindful of. You may ask yourself, do I have proper identification, is all my paperwork filled out properly, and did I pack my toothbrush? These are all relevant questions, but in addition to asking these questions, it is important to ask yourself, am I dressed appropriately?

There are policies set forth by KBR and guidance given on behalf of the United Arab Emirates (UAE) government on how to properly dress when present in theater and while transiting Dubai. These rules apply to all personnel that are in transit as you are compensated for travel transit; therefore you are expected to uphold a standard that does not bring discredit to the organization.

So what's appropriate and what's not appropriate? Shorts and sleeveless shirts are prohibited in theater and while transiting Dubai. If you are vacationing in Dubai, shorts and sleeveless shirts are fine but do make sure they are appropriate. Respecting the customs of the UAE is still important no matter your travel status. Jeans or pants that are ripped or torn are also prohibited. This also applies to open toed shoes. Sandals and flip- flops are not allowed while transiting through Dubai and the theater of operations. Also, while transiting, do not wear any clothing with the KBR logo or any other logos that might identify you as an American contractor such as those logos of OIF (Operation Iraqi Freedom) and OEF (Operation Enduring Freedom). This is also a good rule anytime you are traveling throughout the Middle East or Central Asia. Clothing that has foul language or inappropriate sayings are never acceptable. If you think it may be offensive, chances are it is so don't wear it. Certain head gear is also not permissible while transiting. Hats are permissible as long as they do not have a KBR logo or any other logo that might identify a person as an American contractor. Hats are never allowed on the flight line. Bandanas are also never allowed.

If you aren't sure if something is allowed, feel free to ask your Human Resources representative or a Dubai travel representative. Traveling trouble free really is the best way to travel.

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Information or data contained on this page is subject to the restrictions contained on the first page. 44
MONTHLY MIRROR, AUGUST 2006

DAVE **LESAR**

Photo: Halliburton | Chart prepared by Halliburton Watch

CAMPAIGN FINANCE: POLITICAL DONATIONS BUY 600% GAIN IN CONTRACTS

Halliburton has spent $4.6 million since 2000 buying influence in Washington via campaign donations and lobbying, a Halliburton Watch analysis reveals.[40]

The board of directors and their spouses personally gave $828,701 to candidates for Congress and the presidency, while Halliburton's political action committees donated $1.2 million — most of it to Republicans and political organizations with strong Republican ties.

The company spent an additional $2.6 million lobbying members of Congress, the White House, and federal agencies.

Halliburton's $4.6 million in donations since 2000 has paid-off magnificently. By the end of 2005, the value of the company's government contracts had ballooned by more than 600 percent, largely as a result of the invasion and occupation of Iraq.

In 2000, Halliburton was the 20th largest federal contractor, receiving $763 million in federal contracts. By 2005, it had become the 6th largest federal contractor, with nearly $6 billion in federal contracts that year.

Between March 2003 and June 30, 2006, Halliburton received $18.5 billion in revenue from the federal government for the war in Iraq. The company has seen its profits in government contracting almost quadruple to $330 million in 2005, compared to $84 million in 2004. During one quarter in 2005, Halliburton's war profits skyrocketed by 284 percent.

War contracts, intensified violence in the Middle East, and record oil prices helped quadruple the stock price between the March 2003 invasion of Iraq and March 2006. As a result, the board of directors saw the value of their stock holdings in the company increase by more than $100 million. It also meant that before he sold his stock and turned the proceeds over to charity, Vice President Dick Cheney's Halliburton stock options skyrocketed in value.

CEO Lesar holds the largest number of shares of any Halliburton official, owning 844,928 common shares and share options as of March 1, 2006. The shares were worth $17.3 million as the troops first rolled into Baghdad in 2003. Three years later, on April 10, 2006, they were worth $66.8 million, for a $49.5 million gain. Lesar sold an additional 631,071 shares during the war at various prices for gross amounts totaling between $12.9 million on March 20, 2003, and $49.9 million on March 1, 2006.

FOSSIL **FUEL** CONTRACTS

UNITED STATES

Oil and gas communities in the U.S. continue to suffer this year from the corporate secrecy surrounding the chemical make-up of products designed for the exploration, drilling, and production phases of natural gas and oil development. According to watchdog groups such as the Oil & Gas Accountability Project (OGAP), Halliburton and other oilfield service companies routinely used these products within hundreds of feet of homes, businesses, and schools. With a significant rise in the number of wells drilled, surrounding communities are seeing environmental impacts such as the contamination of underground sources of drinking water.

Hydraulic fracturing, (also known as "fracking"), for example, is one of the production techniques that enhances the recovery of gas and oil from producing wells. Fracking products include carcinogenic, toxic and hazardous materials such as acids, benzene, toluene, ethyl benzene, formaldehyde, polyacrylamides, chromates and a host of other unknown industrial pollutants.[41] Complete chemical information for fracking compound compositions and other products used throughout oil and gas development are difficult, if not impossible, for the public to access. Without this information, insists OGAP, scientists cannot realistically evaluate the immediate and long-term health threats that chemicals pose to communities.[42] Nor can acutely impacted individuals living in the oil or gas-affected areas accurately assess their exposures.

Today, in western Colorado, where communities are facing a booming gas industry, Halliburton is actively fracturing wells that lie as close as 150 feet to homes. Citizens are reporting respiratory, neurological and other ailments. Local governments, including Garfield County, have commissioned studies on the public health effects of the drilling activity.

But these studies may have little impact. In 2005, after years of intense lobbying and despite an outpouring of citizen concern, corporate lobbyists convinced the U.S. Congress that the Safe Drinking Water Act (SDWA) could not be used to regulate the

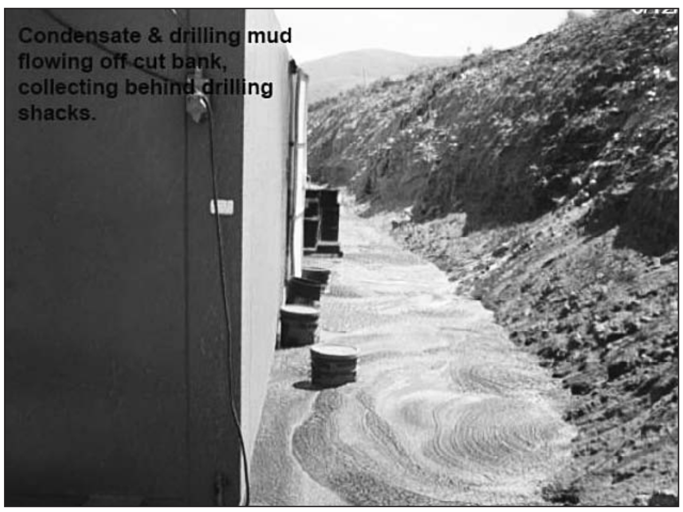


Photo: Oil & Gas Accountability Project

Blow-out site Clark, Wyoming.

sites or even to require disclosure of the composition of hydraulic fracturing products. This exemption was granted to the industry through National Energy legislation in 2005 – despite evidence that a 2004 U.S. Environmental Protection Agency (EPA) study on the practice was scientifically unsound and that the practice may endanger public health.

Accidents have made the situation worse. In June 2006, a spill of hydraulic fracturing fluid at a Halliburton facility near Farmington, New Mexico, created a toxic cloud that caused a mass evacuation of 200 residents from a nearby neighborhood.[43] Between 30 and 60 gallons of an "acidizing composition," which is used while hydraulically fracturing some oil and gas wells, spilled while Halliburton employees were mixing the fluid. The city fire chief said that the product may cause skin and respiratory burns, is harmful if swallowed, and will combust at 103 degrees Fahrenheit. One resident said that she was nauseous and vomited clear liquid for several hours after being exposed to the toxic cloud.

In Clark, Wyoming, a well blowout forced the evacuation of more than 25 homes in August 2006. After three days of uncontrollable releases totaling 8 million cubic feet of methane and vaporized drilling fluids, the well was ultimately brought under control, and residents re-entered their homes.[44] Wyoming's Department of Environmental Quality is now monitoring a plume of groundwater contamination that includes benzene, toluene, ethylbenzene, xylenes and bis(2-ethylhexyl)phthalate.[45] (Benzene is a known carcinogen. Toluene can affect the reproductive and central nervous system, while ethylbenzene and xylenes can have respiratory and neurological effects.[46] Bis(2-ethylhexyl)phthalate is an endocrine disruptor with known health effects on the immune and reproductive systems.[47])

A chemical analysis of the drilling muds in use just prior to the blowout identified 19 Halliburton products and underscored that complete chemical make-up of the products was not publicly accessible.[48] Community residents now worry that the plume will contaminate their domestic drinking wells and, owing to incomplete information, cannot assess potential health risks.

In March 2007, The Endocrine Disruption Exchange (TEDX) released an oil and gas-field chemical analysis spanning four western states.[49] The TEDX report confirmed the highly mobile nature of oil-field chemicals in both water and air, the breadth of serious health affects associated with chemicals used in oil and gas-field products, and the difficulty in accurately identifying chemical make-up of these products. Complete chemical ingredients, volumes, and combinations were so difficult to obtain that TEDX explicitly characterized its analysis as an "underestimation" of the public health threat posed by oil and gas-field chemicals.

Of the chemicals that TEDX identified, more than 60 percent are toxic to skin/sense organs and respiratory systems, 46 percent cause gastrointestinal and liver damage, and 32 percent are neurotoxic (neurotoxins). More than a quarter of the chemicals are immunotoxicants, kidney toxicants, or cardiovascular/blood toxicants; a fifth are carcinogens. The TEDX analysis drew attention to the immediate and largely overlooked human health risk from the evaporation of fracking and other products during the early stages of oil and gas development.

Halliburton products comprised nearly half of the total identified products in the TEDX report. Halliburton's chemical ingredients included 2-butoxyethanol (2-BE), ethylene oxide, sodium chlorite, benzyl chloride, diethanolamine, acrylamide, gluaraidehyde and mercaptoacidic acid. Sixty-seven percent of Halliburton's products had between four and 14 known health effects. Of the chemicals in these products more than 72 percent are respiratory and skin/sensory organ toxicants; 52 percent are gastrointestinal and liver toxicants; 35 percent are neurotoxicants; and more than 16 percent are endocrine disrupters, developmental toxicants, carcinogens, immunotoxicants or reproductive toxicants.

(background) Blow-out site Clark, Wyoming.

Photo: Oil & Gas Accountability Project

Photo: George Osodi, Associated Press

Bonny Island LNG plant, Nigeria.

NIGERIA

The U.S. Securities and Exchange Commission (SEC) is conducting a formal investigation under the Foreign Corrupt Practices Act (FCPA) into whether Halliburton employees paid bribes to government officials in Nigeria in connection with a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State. The SEC has issued subpoenas to current and former Halliburton energy services agents used in connection with multiple projects over the past 20 years located both in and outside Nigeria. The highest official subpoenaed is Albert Jack Stanley, a former chairman of KBR, who is also accused of bid rigging. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, is conducting a similar investigation. The U.S. Department of Justice (DOJ), French and Swiss investigators, as well as the Serious Fraud Office in the United Kingdom are also conducting related criminal investigations.[50]

Our past three alternative annual reports have covered many aspects of this scandal – but it should be noted that this year for the first time, the official Halliburton 2006 annual report acknowledges that people employed by Halliburton and/or its predecessors made illegal payments to Nigerian officials. "Information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of the M.W. Kellogg Company to make payments to government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. We are reviewing a number of recently discovered documents related to KBR activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain of the activities discussed in this paragraph involve current or former employees or persons who were or are consultants to us and our investigation continues," the report states.

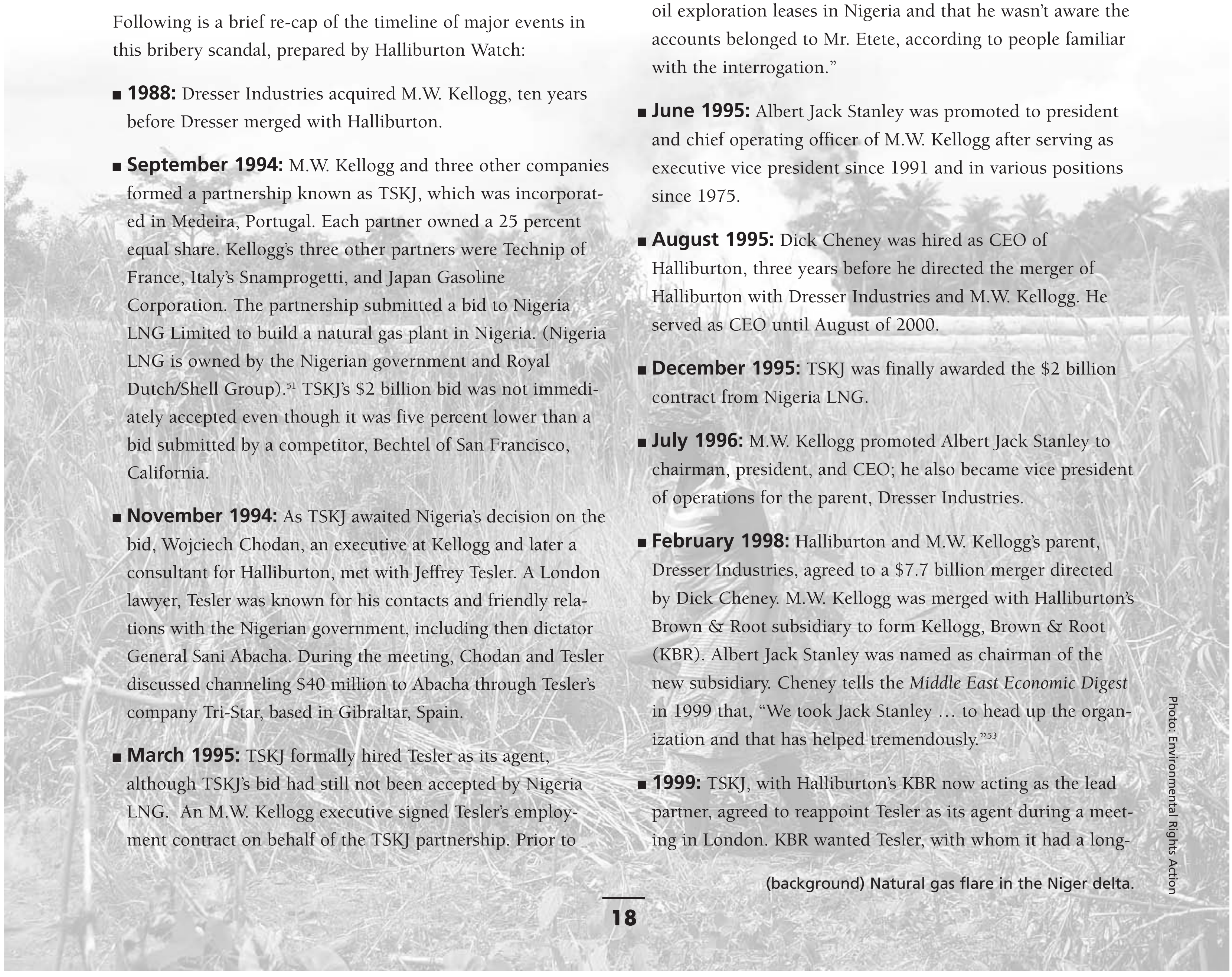
The fact that new documents indicate that illicit payments may have been made in other countries besides Nigeria is important, because it suggests that there may have been a pattern of such activities in the company, making it harder for top executives to claim that these activities were anomalies or the unique responsibility of project managers or consultants.

It's difficult to know how high up the scandal goes, and whether top officials will be implicated, as they have been in a case involving Siemens. Stanley, the executive accused in the Nigeria case, reported to David Lesar, Halliburton's president and chief operating officer at the time and CEO today. Lesar reported to Cheney when Cheney was chief executive, as the timeline below illustrates.

How could Lesar, an accountant and former partner at Arthur Andersen, not have noticed millions of dollars in illicit payments? Lesar reported to then-CEO Dick Cheney, according to news reports by the *Dallas Morning News*.[ii] Neither Lesar nor Cheney have so far been charged in association with the Nigeria case.

If the SEC finds violations of the FCPA, each complicit person or entity could be subject to civil fines of up to $500,000 per violation, plus repayment of all illegal profits. Criminal penalties could range up to the greater of $2 million per violation or the potentially far stiffer penalty of twice the gross financial gain or loss from the violation. If the SEC and the DOJ assert that there were multiple violations, the company could face multiple fines. Other potential consequences could include suspension or debarment from U.K. and U.S. government contracts. (The company says that if it has to plead guilty, it will seek “administrative agreements or waivers” from the Pentagon and other agencies to avoid suspension or debarment.)

Following is a brief re-cap of the timeline of major events in this bribery scandal, prepared by Halliburton Watch:



- **1988:** Dresser Industries acquired M.W. Kellogg, ten years before Dresser merged with Halliburton.
- **September 1994:** M.W. Kellogg and three other companies formed a partnership known as TSKJ, which was incorporated in Medeira, Portugal. Each partner owned a 25 percent equal share. Kellogg’s three other partners were Technip of France, Italy’s Snamprogetti, and Japan Gasoline Corporation. The partnership submitted a bid to Nigeria LNG Limited to build a natural gas plant in Nigeria. (Nigeria LNG is owned by the Nigerian government and Royal Dutch/Shell Group).[51] TSKJ’s $2 billion bid was not immediately accepted even though it was five percent lower than a bid submitted by a competitor, Bechtel of San Francisco, California.
- **November 1994:** As TSKJ awaited Nigeria’s decision on the bid, Wojciech Chodan, an executive at Kellogg and later a consultant for Halliburton, met with Jeffrey Tesler. A London lawyer, Tesler was known for his contacts and friendly relations with the Nigerian government, including then dictator General Sani Abacha. During the meeting, Chodan and Tesler discussed channeling $40 million to Abacha through Tesler’s company Tri-Star, based in Gibraltar, Spain.
- **March 1995:** TSKJ formally hired Tesler as its agent, although TSKJ’s bid had still not been accepted by Nigeria LNG. An M.W. Kellogg executive signed Tesler’s employment contract on behalf of the TSKJ partnership. Prior to March 1995 Tesler had been working on behalf of TSKJ, which gave him the employment contract as a reward for prodding Nigerian officials. The employment contract stipulated that Tesler would be paid $60 million if Nigeria awarded the construction contract to TSKJ. Tesler’s Tri-Star was contracted to receive at least $160 million in five agreements signed between 1995 and 2002, and the funds were directed to bank accounts in Switzerland and Monaco.
- **March 20, 1995:** Dan Etete replaced Nigeria’s former oil minister, who had a falling out with Abacha. “In an interrogation of Mr. Tesler, a French magistrate described the London lawyer’s transfer of $2.5 million into Swiss bank accounts held by Mr. Etete under a false name between 1996 and 1998,” wrote Russell Gold in the Wall Street Journal. [52] “Mr. Tesler confirmed making the payments but told the magistrate that the money was for an investment in offshore oil exploration leases in Nigeria and that he wasn’t aware the accounts belonged to Mr. Etete, according to people familiar with the interrogation.”
- **June 1995:** Albert Jack Stanley was promoted to president and chief operating officer of M.W. Kellogg after serving as executive vice president since 1991 and in various positions since 1975.
- **August 1995:** Dick Cheney was hired as CEO of Halliburton, three years before he directed the merger of Halliburton with Dresser Industries and M.W. Kellogg. He served as CEO until August of 2000.
- **December 1995:** TSKJ was finally awarded the $2 billion contract from Nigeria LNG.
- **July 1996:** M.W. Kellogg promoted Albert Jack Stanley to chairman, president, and CEO; he also became vice president of operations for the parent, Dresser Industries.
- **February 1998:** Halliburton and M.W. Kellogg’s parent, Dresser Industries, agreed to a $7.7 billion merger directed by Dick Cheney. M.W. Kellogg was merged with Halliburton’s Brown & Root subsidiary to form Kellogg, Brown & Root (KBR). Albert Jack Stanley was named as chairman of the new subsidiary. Cheney tells the *Middle East Economic Digest* in 1999 that, “We took Jack Stanley … to head up the organization and that has helped tremendously.”[53]
- **1999:** TSKJ, with Halliburton’s KBR now acting as the lead partner, agreed to reappoint Tesler as its agent during a meeting in London. KBR wanted Tesler, with whom it had a long-

(background) Natural gas flare in the Niger delta.

Photo: Environmental Rights Action

term relationship, to attend. But the representative from the French partner, Technip, wanted a different agent and insisted that Tesler be excluded from the meeting. William Chaudan, the KBR representative at TSKJ, said Tesler had been selected on KBR's recommendation and over Technip's "strong opposition."[54]

Halliburton officials in Houston deny that KBR demanded Tesler's participation. Three new contracts with Tesler required TSKJ to pay his firm, Tri-Star, $32.5 million for his services in Nigeria. Richard Northmore, a sales manager for M.W. Kellogg in England, signed contracts with Tesler for TSKJ. Syed Nasser, M.W. Kellogg's legal director, acted as counsel to the TSKJ consortium, approving Tesler's role. Bhaskar Patel, a sales and marketing vice-president who worked in KBR's office in England, also worked with Tesler.

- **March 1999:** Halliburton announced the Nigerian government awarded a $1.2 billion contract to TSKJ to expand construction of the natural gas plant from two trains to three trains in order to increase the plant's capacity by 50 percent. At the time, Stanley declared the contract award exemplified KBR's "project execution skills."[55]

- **October 1999:** First shipment of liquefied natural gas was shipped from Nigeria.

- **October 2003:** French magistrate initiated an investigation of suspicious payments made by TSKJ after Georges Krammer, a former executive with one of TSKJ's partners, Technip of France, says Tesler is "directly linked to corruption in Nigeria."[56] Halliburton admitted that TSKJ paid $132 million in "advisory fees" to Tesler but said that Tesler's contract with the company stated that the money was not to be used for bribery. But the French investigator said the payments to Tesler "appear completely unjustified."[57]

  More than half of the money paid to Tesler between 1995 and 2002 came after 1999. (Note: Under French law, Cheney could be subject to a charge of "abuse of corporate assets" even if he knew nothing about the alleged improper payments during his tenure as Halliburton's chief executive. By contrast, the U.S. anti-bribery law applies only to executives who are aware of illicit payments to foreign officials.[58])

- **December 2003:** Albert Jack Stanley retired as chairman of KBR, but retained a position as consultant for Halliburton.

- **June 2004:** Halliburton fired Albert Jack Stanley after investigators say he received $5 million in "improper" payments from Tesler. The company also fired William Chaudan, the KBR representative at TSKJ. Halliburton spokesperson, Wendy Hall, says that during the years Lesar ran KBR, Stanley reported to him. Lesar was Halliburton's president and chief operating officer at the time and is the CEO today. (Note: Lesar is an accountant and former Arthur Andersen partner, meaning he may have had the expertise to know about the purpose of payments to Tesler when they occurred.)

  A report is published that Tesler put $1 million into an account held by William Chaudan, the KBR representative at TSKJ. "The company has since learned that even larger sums may have gone into the accounts of Mr. Stanley and Mr. Chaudan."[59] Chaudan retired from M.W. Kellogg in 1998, but had continued as a consultant.[60]

- **August 2004:** Nigeria's parliament voted unanimously to summon Halliburton CEO, David Lesar, to answer questions over its bribery investigation. It issued a report recommending that Halliburton and TSKJ be disqualified from bidding on future government projects. It denounced what it called Halliburton's "hide-and-seek games" to avoid questions from government investigators.

- **September 2004:** TSKJ severed all ties to Tesler and his firm, Tri-Star.

  The *Wall Street Journal* reported on newly disclosed evidence by Halliburton, including notes written by M.W. Kellogg employees during the mid-1990s in which they discussed bribing Nigerian officials.[61] The *Financial Times* of London said the evidence "raises questions over what Mr. Cheney knew – or should have known – about one of the largest contracts awarded to a Halliburton subsidiary."[62]

  Nigeria's President Olusegun Obasanjo officially banned Halliburton from bidding on future government contracts because it violated safety regulations for nuclear material. The President accused the company of negligently causing the disappearance of two highly sensitive radioactive devices used to take measurements in oil wells. The ban was apparently not related to the ongoing bribery investigations.[63]

- **October 2004:** Revelations about Halliburton's central role in the bribery investigation forced United Kingdom's Export Credit Guarantee Department (ECGD) to consider withdrawing its support of a £133 million ($220 million) loan made the previous year to KBR. ECGD said it originally supported the loan on the basis that Halliburton was merely a "subcontractor to the [TSKJ] consortium and financial arrangements


Photo: Iran Daily

Ship loading at South Pars port.

were not their responsibility," but it was maintaining a "watching brief" on the French investigation.[64]

- **October 22, 2004:** Investigators with Nigeria's parliament complain that Halliburton were not cooperating with their investigation of the alleged bribery. The investigators say Tesler paid bribes on behalf of TSKJ to Nigerian government officials. The bribes were paid in installments: $60 million in 1995, $37.5 million in 1999, $51 million in 2001, and $23 million in 2002.
- **June 20, 2005:** The French Newspaper Le Figaro reported that a U.S. Department of Justice official held "lengthy" meetings with French authorities in Paris on the issue of TSKJ bribes. The newspaper said that an unnamed U.S. source asserted that the bribery scandal is "probably the most significant file of corruption" known in Washington today.[65]
- **July 2006:** Police and agents from the Serious Fraud Office in Britain searched four homes and a business in London and Somerset looking for links to the case. Meanwhile French and Swiss investigators tried to gain access to specific bank records in Switzerland and other European countries to determine if tens of millions of dollars in suspected bribe money ended up in accounts linked to Nigeria's former military dictator.[66]
- **September 22, 2006:** A Halliburton employee said he has evidence proving the company has embarked on a campaign to cover-up all wrongdoing, including attempts to mislead federal investigators.[67]
- **October 2006:** The whistle-blower was suspended.

IRAN: PULLING OUT UNDER PRESSURE

In April 2007 Halliburton succumbed to pressure from the U.S. government and pulled out of Iran after completing its contracts.[68] The company's announcement came on the same day Iranian President Mahmoud Ahmadinejad said his country was now capable of producing nuclear fuel on an "industrial scale," and amid fears that the U.S. might attack Iran to destroy its nuclear program.

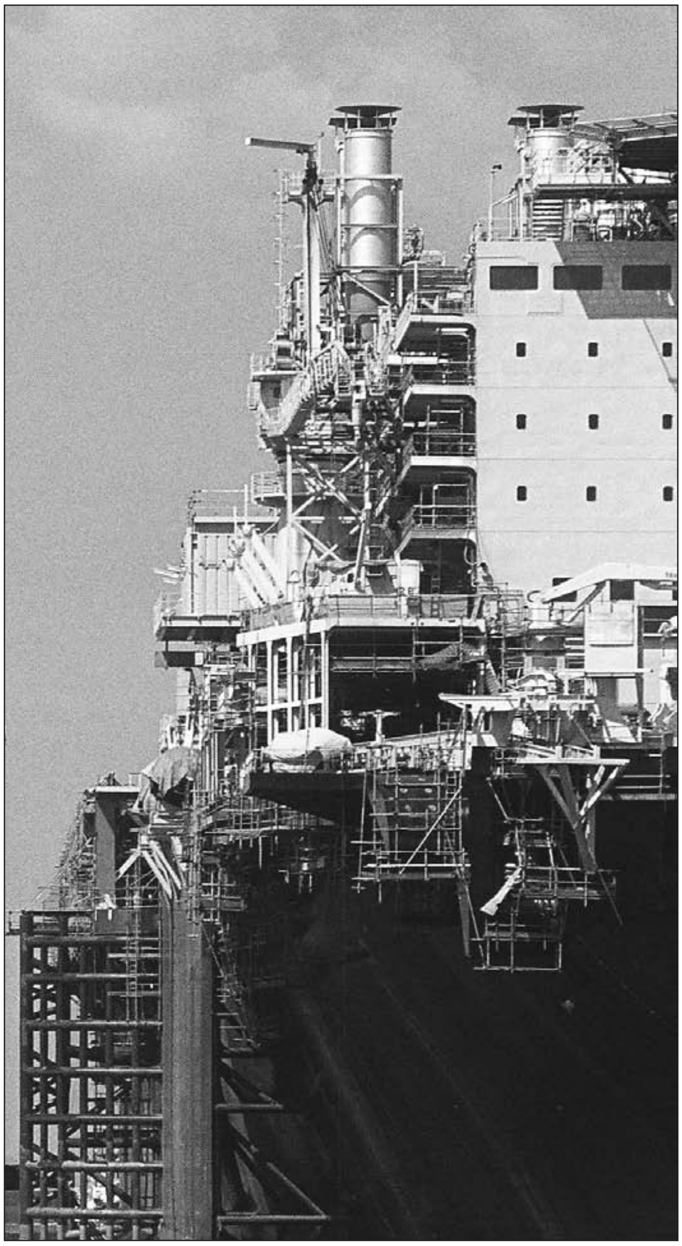
Critics have charged that Halliburton's operations in Iran were a violation of U.S. law prohibiting U.S. companies from doing business in that country. Halliburton, however, claims that its work in Iran was legal because the contracts were signed by a foreign-owned subsidiary based in the Cayman Islands.

A crew from the CBS television program *60 Minutes* visited the Cayman Islands address where Halliburton Products and Services is incorporated, and discovered a "brass plate" operation with no employees. The company's agent – the Caledonian Bank – forwards mail to Halliburton's offices in Houston "indicating that decision-making authority may be in Houston, not the Cayman Islands,"[69] according to the reporters.

A federal grand jury is currently looking into whether the company or its executives knowingly violated a U.S. ban on trade with Iran. The U.S. Department of Justice subpoenaed company documents in the fall of 2004, but has taken no subsequent action.

Ironically, U.S. Vice-President Dick Cheney, Halliburton's former CEO, had lobbied the Clinton administration to ease sanctions on Libya and Iran, according to various news reports. "I think we'd be better off if we, in fact, backed off those sanctions [on Iran], didn't try to impose secondary boycotts on companies ... trying to do business there," Cheney told an Australian television interviewer in April 1998.[70]

Photo: Smit Internationale



Barracuda-Caratinga project, Brazil.

BRAZIL: BARRACUDA-CARATINGA PROJECT

Petrobras, the Brazilian state-owned company, has accused Halliburton of installing faulty sub-sea bolts at the project to covert two supertankers, *Barracuda* and *Caratinga*, into production, storage and offloading facilities for crude oilfields located off the coast of Brazil. Halliburton has already incurred $785 million in losses on this project because of cost overruns.[71] The Barracuda-Caratinga project is a multiyear construction venture for Petrobras, a state-owned multinational.

After bolts on the subsea flowlines failed through mid-November 2005, Petrobas had to replace them. Halliburton claims that Petrobras had issued the original design specification for the bolts and was therefore responsible for replacement costs. Petrobras disagrees.

The estimated cost of fixing the problem —replacing the bolts or finding a workaround— range up to $140 million. Petrobras has taken Halliburton to arbitration, and asked it to pay $220 million plus interest for the cost of monitoring and replacing the defective stud bolts and for all related costs including arbitration and attorneys fees. (The project is now in KBR's portfolio, however Halliburton has assumed all financial and legal responsibilities for the arbitration.)

ALGERIA: BOMBS AND NO-BID CONTRACTS

In December 2006, bombs and gunfire greeted two vehicles carrying employees of Brown & Root-Condor (BRC), a subsidiary of Halliburton, while they were en route from their offices to their residence – a Sheraton Hotel in the town of Bouchaoui, nine miles west of Algiers. The attack killed an Algerian driver and injured nine others, mostly expatriate workers.[72]

Separately the company has come under scrutiny from the Algerian authorities for a no-bid contract, according to a statement filed by Halliburton: "We believe that an investigation by a magistrate or a public prosecutor in Algeria may be pending with respect to sole source contracts awarded to Brown & Root Condor Spa, a joint venture with Kellogg Brown & Root Ltd UK, Centre de Recherche Nuclear de Draria, and Holding Services para Petroliers Spa."[73]

EXPORT SUBSIDIES

A study of U.S. Export-Import Bank (Ex-Im Bank) Annual Reports since 1997 show that Halliburton and its subsidiary, Kellogg Brown & Root, benefited from over US $2 billion in Ex-Im Bank authorized loans and guarantees.[iii] This includes over $700 million benefiting Halliburton and over $1.4 billion benefiting Kellogg Brown & Root for projects located in Algeria, Nigeria, Egypt, Qatar, Russia and Mexico.

Halliburton and Kellogg Brown & Root are listed as the "principal supplier" in these transactions, meaning that their supply of goods and services to these projects is the principal U.S. export used to justify Ex-Im Bank support. Halliburton's move to Dubai raises the question of whether or not there is any longer a U.S. exporter that can be claimed as the principal supplier in these transactions (at least the $700 million to Halliburton).

CONCLUSIONS & **RECOMMENDATIONS**

Over the course of these four alternative annual reports we have examined Halliburton's work from Afghanistan to Nigeria, from oil platforms in Brazil, to Hurricane Katrina reconstruction in Louisiana; from Halliburton-built prisons in Guantanamo Bay, Cuba, to the fuel supply contracts in Iraq. Our findings are often the same. Halliburton has: won no-bid contracts; been implicated in overcharging, waste, shoddy workmanship and fraud; paid some workers poorly or not at all, while failing to protect their safety and security; fired whistleblowers and ignored investigators. Now, Halliburton has declared that it will move its headquarters out of the country to a location called a "comfort zone" for corporate corruption.[iv]

The numbers in question are staggering: On February 15, 2007, Congressman Henry Waxman released a report charging that, out of a total of $20 billion Halliburton has so far billed U.S. taxpayers for its work in Iraq, it has racked up $2.4 billion in "unsupported" and "questioned" costs.[74] The "unsupported" costs represent charges without receipts ($450 million), while the "questioned" costs of $1.9 billion represent charges that are unreasonably high.

A simple answer to this problem would be for customers such as the U.S. military to refuse to pay for anything without a receipt and proper justification. Unfortunately for the military, there are simply not enough supervisors to make sure that the company does not waste money. Nor does the military have any leverage once a virtual monopoly contract has been granted to the company: the day Halliburton stopped working, military operations in Iraq would cease to function. It's time to change that power relationship.

RECOMMENDATIONS FOR HALLIBURTON/KBR

- **Bring your employees home from Iraq.** It's time to bring the company home and end the occupation.
- **End of the veil of secrecy.** Release to the public the details of all the Iraq, Katrina, and Immigration and Customs Enforcement contracts – and reveal the bidding process by which they were awarded. Americans deserve to know how our tax dollars are spent and which companies are being subcontracted to actually do the work. And certainly we want our legislators, who are charged with oversight of public contracts, to have access to these records. Halliburton must also disclose the purpose of all of its "brass plate" subsidiaries incorporated in tax havens and stop using overseas subsidiaries to circumvent U.S. laws and its obligations to employees and taxpayers.
- **Stop doing business with dictators**. By doing business with dictators and corrupt regimes around the world, Halliburton not only supports and provides credibility to those regimes, it also profits from the suffering of people in those countries. Halliburton should end its business dealings with countries that violate the human rights of their citizens.
- **Put top executive pay packages up for a shareholder advisory vote.** This is standard practice in countries such as the United Kingdom.
- **Respect your workers.** Pay your workers a fair wage, provide decent working conditions to foreign contract workers whether in Iraq or in Louisiana, and allow your workers to form unions as well as to access courts and dispute resolution mechanisms in the U.S. pay for job-related dismissals, injuries or illnesses.
- **Do not poison our drinking water or air.** The public deserves scientific demonstration that chemicals injected into or close to drinking water, or left to evaporate off exploration and production facilities are not going to poison them. Otherwise, these practices should be banned. Shareholders should also seriously contemplate the potential long-term liabilities of lawsuits demanding compensation for damage to the environment and public health.

RECOMMENDATIONS FOR U.S. POLICY MAKERS

- **Cancel Halliburton and KBR's contracts.** Enough evidence has been accumulated about Halliburton's shoddy work and possible criminal wrongdoing in Iraq to merit the cancellation of Halliburton's Iraq contracts and to suspend the company from new contracts until all outstanding criminal investigations are resolved.

- **Penalize War Profiteering.** The U.S. Congress should strengthen the penalties for corporations and individuals convicted of contract-related crimes, including fraud and bribery. Federal acquisition regulations should be strengthened to debar companies from any contracts for no less than three years after conviction for contract-related crimes. Companies under criminal investigation for contract-related abuses should be suspended from additional federal contracts or task orders until such investigations are concluded. Congress should start by passing the Honest Leadership and Accountability in Contracting Act (S. 606) and the Clean Contracting Act (H.R. 6909), which apply lessons learned from Iraq and Katrina contracting to all federal contracts. In addition, Congress should pass S. 119/H.R. 400, the War Profiteering Prevention Act, which would impose criminal sanctions for war profiteering.

- **Improved investigation and oversight.** The U.S. Congress should also establish a select committee to provide effective Congressional oversight over war- and reconstruction-related government contracts in Iraq, Afghanistan and other countries associated with the ongoing "war on terror." In particular, Congress should act on a bipartisan resolution first introduced in the Senate in 2004 by Senators Durbin (an Illinois Democrat) and Craig (an Idaho Republican) that would establish a committee to provide wartime contract oversight modeled after the successful Truman Committee of World War II. This committee could also examine similar large contingency contracts such as those awarded after Hurricane Katrina. The committee should evaluate the threats posed by outsourcing military and related government functions and services, including oversight and security.

- **Ensure transparency and accountability in government contracting.** U.S. government agencies should prevent the type of cronyism that has allowed companies such as Halliburton to parlay their political connections into lucrative contracts. The bidding process for U.S. government contracts in Iraq and elsewhere should be open and transparent, including such safeguards as posting contracts on the Internet along with a publicly available online database of bidders' compliance history. Companies such as Halliburton that have repeatedly violated federal laws should be automatically banned from receiving government contracts.

Photo: Meenu Bhardwaj.

Protestors at Hallliburton annual meeting in Houston.

- **No more corporate welfare.** The World Bank, the Export-Import Bank and other international lending institutions should stop subsidizing Halliburton's fossil fuel development projects that have perpetuated climate change, wars, corruption and a widening gap between rich and poor. The World Bank should expand its corruption policy to include the companies financed by the International Finance Corporation and its contractors. Any company that has committed a contract-related crime (e.g., bribery) should be suspended from new business for as long as it is being investigated, and for a period of no less than 3 years after admitting that it or its agents committed such a crime.

- **Take the money out of politics.** Attempts by companies such as Halliburton to manipulate the political process with millions of dollars in campaign contributions will only be thwarted when the corrupting influence of money is taken out of our political system. Companies should also stop spending any corporate funds on political campaigns and facilitating the bundling of employee contributions. The Clean Money, Clean Elections Act (H.R. 1614) and the Fair Elections Now Act (S. 936) give candidates for office who wish to eschew corporate funding a fair chance.

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"The problem is that the good Lord didn't see fit to put oil and gas reserves where there are democratically elected regimes friendly to the interests of the United States."

Dick Cheney

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