

**Statement of Melanie Sloan
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**Senate Democratic Policy Committee Hearing
“Contracting Abuses in Iraq”**

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Good afternoon. My name is Melanie Sloan and I represent Citizens for Responsibility and Ethics in Washington, a non-partisan, government watchdog organization primarily concerned with ethics in government. Today, I am here to discuss the appearance of impropriety in the process of awarding government contracts to rebuild Iraq, including allegations of cronyism, questionable pricing practices, and a lack of transparency.

To many, both in the United States and abroad, the Administration seems as concerned with the interests of large contractors such as Halliburton, as it is with the burden on the American taxpayer or the benefit to the Iraqi people. The Congress, not to mention the American people, knows very little about how American tax dollars are being spent in Iraq and, unfortunately, efforts to ferret out this information have been met with obfuscation.

Just last week, the Center for Public Integrity, a well-respected watchdog group, announced the completion of a six month study which found that the contracting system in Iraq is beset by “almost incomprehensible confusion” and that federal officials have been either unwilling or unable to provide information about the contracts awarded.

The most widely cited example of cronyism and lack of transparency involves contracts awarded to Halliburton. Not only was Vice President Cheney the Chief Executive Officer of Halliburton, but he continues to have a financial interest in the company. In a report issued in late September, the Congressional Research Service concluded that under federal ethics laws, the annual deferred compensation checks and unexercised stock options that Mr. Cheney maintains in Halliburton constitute a continuing financial interest.

Moreover, it is well documented that Halliburton has made significant political contributions, the vast majority of which have been to Republicans, including contributions to the Bush-Cheney re-election campaign. Even if these political contributions had no bearing on contracts being awarded to Halliburton, given the lack of an open bidding process, there is a perception of impropriety that needs to be addressed.

When Mr. Cheney was Secretary of Defense, he commissioned a study by a Halliburton subsidiary to discover whether outsourcing of defense functions was a good idea. Later, after the study – to the surprise of absolutely no one – showed that outsourcing would be a good idea, Halliburton hired Mr. Cheney as its CEO. Now, with Mr. Cheney returned to a position of power in the government, this time as Vice President, Halliburton has received government contracts in Iraq worth billions, allowing it to reap huge profits.

Despite the Administration's insistence that there is nothing "improper" in this arrangement, the skepticism with which the administration's claims of impartiality have been met casts doubt on the integrity of the government contracting system, not only by the American people, but by our allies and the Iraqi people as well. These are doubts our nation can ill afford as we expect our troops and U.S. civilians to win the peace in Iraq.

The fact is that Halliburton is the biggest single government contractor in Iraq, followed by Bechtel and DynCorp, and that Halliburton, in particular, has profited from nearly every phase of the conflict in Iraq.

Many find it particularly troubling that nearly a year before the war in Iraq began, in March of 2002, Halliburton's subsidiary Brown and Root began its first action relating to Operation Iraqi Freedom. The fact that Halliburton benefitted from the military build up before the war, the conduct of the war itself, and the restoration of Iraq after the war, has made many believe that Halliburton is unfairly benefitting from the war. Again, this appearance of impropriety undermines confidence in the contracting system.

We have also seen troubling developments with regard to Halliburton's performance of its contracts in Iraq.

Most recently, for example, we have learned that Halliburton has charged an average price of \$2.65 per gallon of gasoline imported into Iraq from Kuwait, despite experts' conclusions that the total price should be less than \$1 per gallon. The \$1 per gallon figure is based on the estimated cost of 71 cents per gallon to buy gas in the region, plus a transportation cost of approximately 25 cents per gallon, for a total of 96 cents.

In contrast, the Iraqi State oil company is paying just 97 cents to import the exact same gas from Kuwait for which Halliburton is charging the United States government \$2.65. The Coalition Provisional Authority has confirmed that there is no difference between the gasoline that Halliburton and the Iraqis are importing and that both are delivering their gas to the same depots and same distribution systems.

Halliburton's CEO David Lesar has claimed that the company's prices are fair and competitive, but experts in the field argue that Halliburton appears to be price gouging. The Administration has refused to explain this anomaly.

It also appears that some of the funds to pay Halliburton have come from humanitarian funds transferred from the United Nations Oil for Food program. Under the terms of a United Nations Security Council resolution, the International Advisory and Monitoring Board was supposed to ensure that the UN Oil for Food funds were spent for the benefit of the Iraqi people. Not only has this board not been created, it seems that \$1 billion transferred from the program may have been squandered on inflated fuel costs charged by Halliburton.

Again, the Administration has refused to explain.

Because the U.S. has requested yet another \$900 million for the importation of petroleum products, if Halliburton's pricing practices are not stopped, it has been estimated that between \$286 and \$339 million of this \$900 million could be wasted. But the Administration has refused to provide an explanation.

Similarly, the Administration's request for an additional \$2.1 billion to repair Iraq's oil field infrastructure is more than 2.5 times larger than an estimate by the Coalition Provisional Authority, the Army Corps of Engineers, and the Iraqi Minister of Oil.

In addition to unchecked overcharging, the Administration has been less than open about its contracts with Halliburton. The sole-source oilfield contract with Halliburton subsidiary Kellogg Brown and Root (KBR) is a good example. The Defense Department entered into a no-bid contract with KBR on March 8th, but did not disclose until April 8th that this contract had a potential value of up to \$7 billion. After repeatedly indicating that the contract was limited to fighting oil fires and carrying out related repairs, the Department of Defense later revealed that the contract extended to operating oil facilities and distributing fuel.

There is no reason for such lack of transparency which, unsurprisingly, results in perceptions of cronyism and impropriety. If, as the Administration claims, there is no impropriety, then why not open up the contracts for inspection? If there are explanations for what appears to be excessive profit-taking, why not provide them? Why all the secrecy?

It is time for Congress and the American public to demand answers from the Administration. We deserve to know who is getting paid, what work they are being paid for, how much that work is costing, and why the work costs so much.

The lack of transparency in the government contracting process, the appearance of cronyism, the unexplained anomalies in pricing, the trickling out of information that the Administration might perceive as damaging, and the refusal to make relevant information public, have undermined the integrity of the reconstruction process and, as a result, have undermined our national security interests.

It is critical, in the days ahead, that the Administration show the American public, our allies, and the Iraqi people that it is not simply making deals for the benefit of those with close political ties to the Administration, but that it is working to rebuild Iraq as quickly as possible and that it is administering the contracts to do that work as fairly as possible.

Thank you for having me here today, and I would be happy to answer any questions you might have.