

HOUSTON, WE **STILL** HAVE A PROBLEM



AN ALTERNATIVE ANNUAL REPORT
ON HALLIBURTON, MAY 2005

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HOUSTON, WE **STILL** HAVE A PROBLEM

In the introduction to Halliburton's 2004 annual report, chief executive officer David Lesar reports to Halliburton's shareholders that despite the extreme adversity of 2004, including asbestos claims, dangerous work in Iraq, and the negative attention that surrounded the company during the U.S. presidential campaign, Halliburton emerged "stronger than ever." Revenue and operating income have increased, and over a third of that revenue, an estimated \$7.1 billion, was from U.S. government contracts in Iraq.

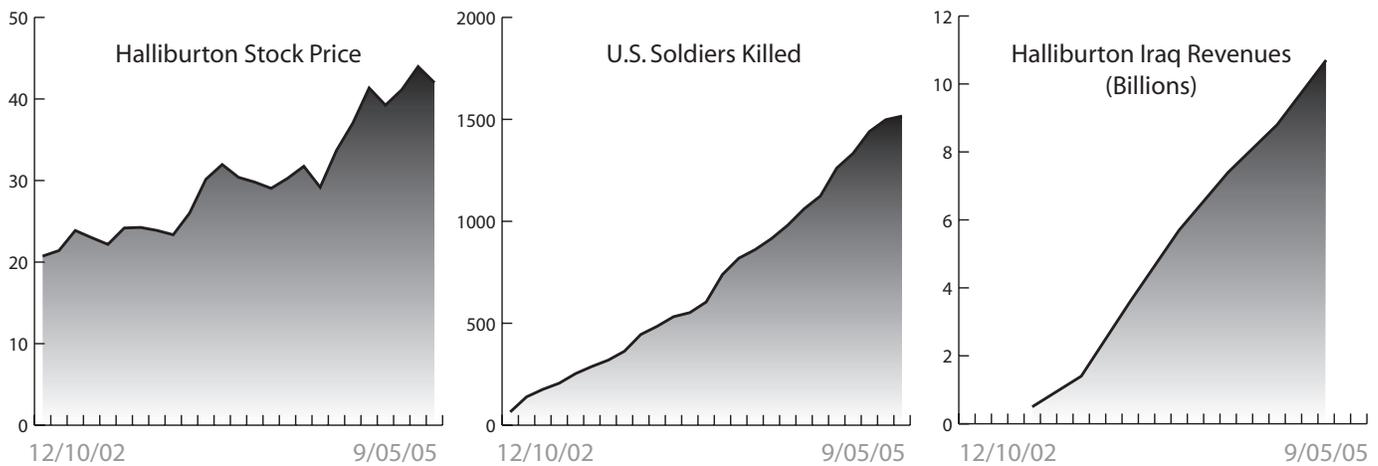
In a photo alongside Lesar's letter to the shareholders, he smiles from a plush chair in what looks like a comfortable office. He ends the letter, "From my seat, I like what I see."

People sitting in other seats, in Halliburton's workplaces around the world, lend a different view of the company, which continues to be one of the most controversial corporations in the United States.

From the seat of a Halliburton truck driver in Iraq, for example, the view in 2004 was petrifying. Sixty of the company's employees have been killed in Iraq so far, and several families are suing the company, claiming that Halliburton misrepresented the true nature of its civilian employees' duties, and intentionally placed them in harm's way.

From the seat of the company's legal representatives, the view is of stacks of paperwork piling up as investigator after investigator demands documents from Halliburton regarding everything from possible bribery in Nigeria to over-billing and kickbacks in Iraq. The company is currently being pursued by the U.S. Federal Bureau of Investigations and the Securities and Exchange Commission, while the U.S. Department of Justice is also investigating Halliburton's work in Nigeria, Iran, Iraq, and the Balkans.

The accountants are also not pleased with their view. Former Halliburton accountants filed a class action lawsuit in August 2004 alleging "systemic" accounting fraud from 1998 to 2001. There's also the problem of acknowledged and alleged over-



charging in Iraq. Early in 2004, Halliburton returned \$6.3 million to the U.S. military, admitting that two of the company's employees took kickbacks from a Kuwaiti company. But the company still hasn't repaid the \$212.3 million the Defense Contract Audit Agency says Halliburton overcharged for gasoline in Iraq. And in mid-April, the U.S. embassy in Baghdad threatened to terminate the oil field repair contract, citing serious cost overruns and "poor performance," even going so far as to ask a rival contractor to complete the work!¹

Still, Lesar does have a lot to smile about this year. Despite the numerous problems with its work in Iraq, including charges of outright fraud, Halliburton was awarded two additional contracts there in January 2004, not including the no-bid contract the company was awarded in March 2003 and the Logistics Civil Augmentation Program contract, which was awarded in December 2001. In 2004, Halliburton's Iraq revenues were almost double the amount from 2003. There are rumors that the company may win even more work to build 14 permanent U.S. military bases in Iraq.

Undoubtedly, the company is helped along in the contracting process by friends in high places. Vice President Dick Cheney

once held Lesar's job as Halliburton chief executive officer, and was returned to office this year, along with many Republican colleagues, thanks in part to campaign contributions worth more than half a million dollars from the company and its board of directors.

With Halliburton's preferred party in control of the executive and legislative branches of the government, it's likely that Congress will continue to resist serious investigations into Halliburton's contracts and fail to ensure that U.S. taxpayer dollars are protected from bribery, fraud, and other wrongdoing practiced by Halliburton employees.

Last year, Lesar said in a company television commercial that "Criticism is OK. We can take it." This year, he has shown beyond the shadow of a doubt that Halliburton may be able to take criticism, but it is not able to reform itself into a company worthy of handling billions in U.S. taxpayer dollars. Halliburton continues to be the poster child of war profiteering and corporate unaccountability. This report will document Halliburton's track record during 2004 and demonstrate that if the company were held accountable for its business practices, it would surely lose its U.S. government contracts for good.

MILITARY CONTRACTS

Halliburton estimates that \$7.1 billion, over one third of company revenue in 2004, came from U.S. government contracts in Iraq. (In addition, the company made another \$900 million from U.S. government contracts in other parts of the world such as Afghanistan and the Balkans). This was almost double the amount it made in 2003² (when the company first joined the ranks of the military's top ten contractors) and significantly greater than in previous years. By comparison the company made an average of \$240 million a year from U.S. government contracts in the five-year period between 1990 and 1995.³ These contracts ballooned in the late 1990s when Dick Cheney, former Pentagon chief and White House chief of staff, took over as the company's chief executive officer. Building on decades of contacts in Washington, Cheney rapidly increased the company's business with government, notably landing a project to provide logistical support to the U.S. military in former Yugoslavia. (For more details of these contracts see "*Houston, We Have A Problem, An Alternative Annual Report on Halliburton, April 2004.*")⁴

After the 2001 invasion of Afghanistan and the 2003 invasion of Iraq, these contracts grew with the secret awarding of at least one major sole-source multi-billion dollar contract that critics condemn as improper. Another controversial aspect of these contracts is that they are "cost-plus" which means that the company is awarded a percentage profit on top of being reimbursed for all expenses. Many of these expenses have been disputed by whistleblowers and members of Congress as inflated while at least one company manager has been charged with outright fraud. The following section explains some of the recent discoveries of malfeasance at Halliburton's operations in Iraq.

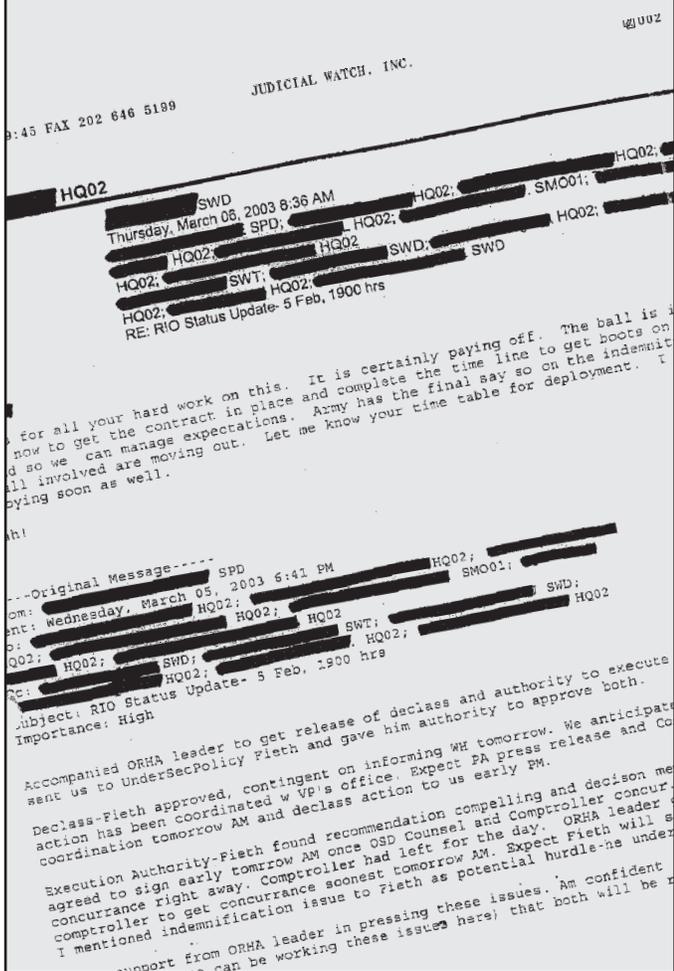
NO-BID CONTRACTS IN IRAQ

In the summer of 2002, Michael Mobbs—a special assistant to U.S. Undersecretary of Defense Douglas Feith—was assigned the task of developing a plan for reconstructing Iraq's oil industry in the event of an invasion. In fall of 2002, his Pentagon team paid Halliburton \$1.9 million to draw up a proposal for the project,

PENTAGON APPROVES NO-BID CONTRACT



Lieutenant General Carl Strock of the Army Corps of Engineers (left) met with Halliburton representatives over the objections of chief procurement officer Bunnatine Greenhouse (right) to draw up a contract for restoring Iraq's oil production. A March 6, 2003, memo (below) was approved by Under Secretary of Defense Douglas Feith (center).



which was later named Restore Iraqi Oil (RIO). Mobbs informed various White House officials including I. Lewis "Scooter" Libby, Cheney's chief of staff, about this decision.⁵

On February 26, 2003, three weeks before the Iraq invasion, a secret meeting was held at the Pentagon. The Army Corps of Engineer's Lieutenant General Carl Strock was present as were representatives from the State department, the U.S. Agency for International Development, and others, including several representatives from Halliburton. On the agenda was the decision as to which contractor would get the RIO contract, estimated to be worth several billion dollars over five years. No announcement of the contract had been made or put out to bid, as is the normal procedure, but it was clear that Halliburton would be in the running, even though government contractors claim that other major corporations were equally capable.⁶

The Army Corps' chief procurement officer, Bunnatine Greenhouse, who was present at the meeting, was stunned. She whispered to General Strock that the Halliburton representatives leave the room. The general agreed reluctantly. (Normally protocol dictates that the contractor that draws up a plan for a project should not be allowed to bid on the job itself because they know insider details that would give them an unfair advantage).

Once Halliburton's representatives had gone, Greenhouse raised other concerns. She argued that the five-year term for the contract was not necessary, that it should be for one year only and then be opened to competition. Strock and his colleagues ignored her opinion—when the approval document arrived the next day for Greenhouse's signature, the terms were a sole-source contract made out to Halliburton for five years. With war likely to take place in a matter of days, she had little choice but to sign off on the contract. But she added a handwritten note saying she felt that extending a no-bid contract beyond one year could send a message that "there is not strong intent for a limited competition."⁷

On March 6, 2003, less than two weeks before the invasion, an email from a U.S. Army Corps of Engineers official, described securing "authority to execute RIO" after "DepSecDef [ie Wolfowitz] sent us to UnderSecPolicy [Under Secretary of Policy Douglas] Feith and gave him authority to approve" (the RIO contract).⁸ The final contract stated that the company could be awarded as much as \$7 billion in repair work.⁹

On March 19, 2003, the war began. Halliburton engineers swept into the country alongside the troops to work on

quenching the oil fires. When the regime of Saddam Hussein was defeated in less than three weeks and the oil fields secured, the amount of work available to Halliburton was significantly cut back. But the Pentagon quickly extended the contract to include providing fuel supplies to the country.

The Army opened the contract up for competitive bidding later that summer, after a public outcry over the secretive sole-source contract. On January 16, 2004, two new contracts were awarded: another \$1.2 billion to Halliburton for work in the southern oil fields of Iraq and \$800 million to a Parsons-Worley team for work in the north. The new contract was for two years, with three one-year extension options. By September 2004, Halliburton had already billed the government \$2.5 billion for RIO work, more than half of which was paid directly out of Iraq's oil revenues and seized assets.¹⁰

But competing contractors argued that even the new bidding process (dubbed the "Sons of RIO" competition) was rigged in favor of Halliburton. Sheryl Tappan, chief negotiator for Bechtel of San Francisco, wrote and self-published a book in April 2004 entitled "Shock and Awe in Fort Worth: How the U.S. Army Rigged the 'Free and Open Competition' to Replace Halliburton's Sole-Source Oil Field Contract in Iraq." In the book, Tappan details the bidding process and exposes a number of problems.

"The irony is the 'Sons of RIO' competition turned out to be far more corrupt than the secret sole-source award," she writes, adding, "Pentagon officials, up and down the chain of command, lied and cheated Halliburton's competitors and broke federal laws to ensure Halliburton kept all of the Iraq oil work. They include generals and high-level political appointees at the Pentagon, as well as lower-level contracting staff at the Army Corps of Engineers' Southwestern Division/Fort Worth District, who conducted the 'Sons of RIO' competition."¹¹

Tappan alleges that critical information about the bid (from the plan drawn up by Halliburton itself) was withheld—against federal law—until only 13 days before their proposals were due on August 14, 2003. And the final work plan that was put out to bid required that all subcontracts and purchases of equipment and materials had to go through Halliburton's procurement and accounting systems, even for projects managed by Iraqi Ministry of Oil personnel, allowing Halliburton to receive a fee and profit from virtually everything done in the Iraq oil fields.¹²

She also notes that the new contracts did not replace Halliburton's original RIO contract because that contract was

HALLIBURTON DONATES LAPTOP COMPUTERS FOR TROOPS IN IRAQ

LAFAYETTE, Louisiana—Halliburton (NYSE: HAL) is donating 12 laptop computers to the 256th Brigade of the Army National Guard in Breaux Bridge, Louisiana, for use by troops in the Alpha Company, 2nd Battalion, 156th Infantry (Mechanized), in Iraq.

At 1 p.m. today, Tony Angelle, vice president of Halliburton's Gulf Coast Region, will present the computers to Rear Detachment Commander Charles Lalanne and Family Readiness Group Leader for Alpha Company, Joel Breaux.

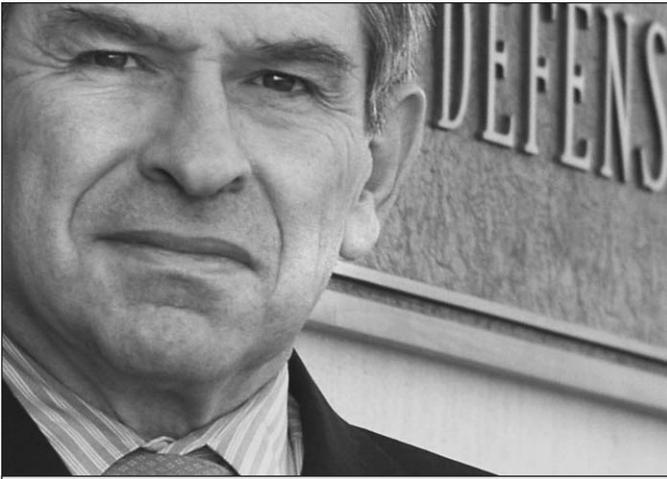
"We are very happy to donate these laptop computers to help the troops who are putting their lives on the line to support freedom for the Iraqi people," said Angelle. "The wife of one of our employees, Darrel Arabie, works with the Family Readiness Group to provide support to the troops and told us that they needed electronic equipment, especially computers."

Breaux said: "You have no idea of the magnitude of this donation. Just the other day, I got an email from a mother who wanted to know if there was anyone who might help her son find a laptop so he can keep in touch with his wife and child. This donation will touch many."

The laptops will allow soldiers to communicate with their families news of birthdays, anniversaries, photographs, holidays and other family activities via email.⁴⁰

(The above is an exact reproduction of an actual Halliburton press release—dated February 18, 2005—of course it makes no mention that the company revenue from supplying the troops in Iraq equaled close to a billion dollars per donated computer, let alone the existence of a dozen or so fraud and overcharging investigations into the company.)



PAUL WOLFOWITZ

The United Nations International Advisory Monitoring Board (IAMB) staff had a hard time tracking down where the Development Fund of Iraq (DFI) money was going, mostly because the U.S. government officials were completely unhelpful. Eventually they discovered that Washington's bureaucrats had siphoned off billions of dollars from the DFI for a variety of projects without consulting the official Iraqi representatives, including \$1.66 billion to pay Halliburton for oil field repair work under the RIO contract.³²

Had they asked Paul Wolfowitz, who is soon to become one of the IAMB board members in his role as president of the World Bank, they might have discovered the truth far more quickly. In his job as U.S. Deputy Defense Secretary, Wolfowitz had played a key role in arranging for Halliburton to get the work in the first place.

His role is evident in a March 6, 2003 email, uncovered by conservative watch-dog group Judicial Watch, which was written by a U.S. Army Corps of Engineers official. The email states that the official secured "authority to execute RIO" after "DepSecDef [ie Wolfowitz] sent us to UnderSecPolicy [Under Secretary of Policy Douglas] Feith and gave him authority to approve" (the RIO contract to Halliburton without seeking bids from any other potential contractors.)

The coded email added that the "action has been coordinated w[ith] the VP's office." [VP or Vice President Dick Cheney, was chief executive officer for Halliburton from 1995 to 2000]³³

never cancelled. Instead, two new contracts had been tacked on and the original RIO was closed out in September of 2003.

On October 6, 2004, Greenhouse was summoned by the Corps' deputy commander, Major General Robert Griffin, and told that she was being demoted for poor performance, despite the fact that she had outstanding annual reviews until July 2003, shortly after she started to object to the Halliburton Iraq contracts. A couple of weeks later, she went public about the improper contracts with Halliburton with the help of a lawyer, Michael Kohn of the National Whistleblower Center. Greenhouse, an African American, is now hoping to be heard by the Corps' Equal Employment Opportunity Office, on the grounds that she is a victim of bureaucratic inequity, racial and gender prejudice.¹³

BRIBERY AND CORRUPTION

The allegations of unorthodox behavior extend beyond the Pentagon to the Halliburton managers dispatched to the Middle East for the invasion of Iraq. These teams were initially based out of several hotels, notably the Khalifa Resort and the Hilton in Kuwait, where they worked on the RIO contract as well as the logistical support for the 150,000 troops that would spearhead the invasion and subsequent occupation. This support work was assigned to the company under an indefinite-delivery-indefinite quantity 10 year contract known as the Logistics Civil Augmentation Program, or LOGCAP, which was awarded in December 2001.¹⁴

From food services to latrine cleaning, trucks to cots and tents, gymnasiums and showers, to generators and air conditioners—you name it, Halliburton supplied it. Robert "Butch" Gatlin, the Halliburton project manager, handed off the actual work to subcontractors looking to get a piece of the lucrative wartime business.¹⁵

Some Halliburton employees allegedly asked for more than just goods and services in return, according to one internal memo from the U.S. embassy in Kuwait. It was common knowledge "that anyone visiting their seaside villas who offers to provide services will be asked for a bribe" the August 6, 2003, memo stated, quoting officials from a local Kuwaiti company named Altanmia.¹⁶

One of the managers was an American named Jeff Alex Mazon, who worked his way up the ladder after joining the company in 1996. In February 2003, Mazon was given the job of soliciting bids from potential subcontractors to supply fuel tanker trucks at a U.S. military airport in Kuwait for a six-month peri-

od from March through August of 2003. The company's estimated cost for this six-month contract was about \$685,000.¹⁷

Mazon got at least two bids: one from an unnamed Kuwaiti company for about \$1.9 million and another from a Kuwaiti company called La Nouvelle, run by a man named Ali Hijazi, for nearly \$1.7 million. An Illinois grand jury is now alleging that Mazon fraudulently inflated both bids before the contract was awarded, more than tripling them to \$6.2 million for the unnamed company and \$5.5 million for La Nouvelle. La Nouvelle then won the contract on the basis that it had submitted the lower bid.¹⁸

In June 2003, Mazon quit his job. Then three months after leaving Halliburton, he was accused of receiving a \$1 million payment from La Nouvelle, in an indictment issued mid-March 2005 by the grand jury. "Mazon and Hijazi also executed a promissory note as a ruse to make the \$1 million payment appear to be a ... loan from Hijazi to Mazon" the indictment reads.

On March 16, 2005, Mazon was arrested just outside the city of Atlanta and charged with four counts of major fraud and six counts of wire fraud. If convicted, Mazon faces a maximum penalty of up to 10 years in prison and a fine of \$5 million for each count of major fraud and no more than 20 years in prison and a fine of up to \$250,000 for each count of wire fraud.¹⁹

Marie deYoung, a meticulous former Army chaplain, who spent five months working for Halliburton in Kuwait where she was in charge of bringing subcontracts up to date, says she found a number of problems with the contracts with La Nouvelle and other companies.

Taking her complaints to Congress in June 2004, deYoung testified that while reviewing those contracts, she found La Nouvelle had billed monthly for 37,200 cases of soda at a cost of \$1.50 per case but delivered only 37,200 cans. She also testified that Halliburton was paying La Nouvelle up to \$1.2 million a month to provide laundry service, equivalent to \$100 per 15-pound bag. Under a separate contract with the same company, Halliburton paid only \$28 a bag, she said.²⁰

Meanwhile, La Nouvelle is also currently embroiled in a lawsuit against Halliburton that was filed in the U.S. District Court of Eastern Virginia on October 15, 2004. The company originally claimed that Halliburton had failed to pay La Nouvelle as much as \$240 million in unpaid bills and lost equipment on more than two dozen outstanding contracts. Halliburton in turn disputes the matter, claiming that La

Nouvelle contracts were terminated, in part, because the company "may" have paid kickbacks to Halliburton employees.²¹

COMPANY ADMITS PROBLEMS

In what appears to be a major house-cleaning, once the news started to circulate about overcharging and fraud several other Halliburton managers in Kuwait have quit or were fired under mysterious circumstances .

The first indication of these problems came in January 2004, when Halliburton publicly announced that it had returned \$6.3 million to the military and admitted to the Pentagon that two unnamed Halliburton employees had taken kickbacks in return for a lucrative contract from an unnamed Kuwaiti company. In November 2004, Halliburton also filed a declaration with the U.S. Securities and Exchange Commission (SEC) stat-

CHENEY CURSES HALLIBURTON CRITIC



Vice President Dick Cheney lashed out on the Senate floor against one of his most vocal critics, Senator Patrick Leahy, a Democrat from Vermont, while the two men were posing for a photograph on June 22, 2004. During a Fox News interview, Cheney later said Leahy "had challenged my integrity [regarding Halliburton]. I didn't like that." In response to Cheney, Leahy reminded Cheney that the vice president had once accused him of being a bad Catholic, to which Cheney replied with an expletive.³⁴

CENSORED SENTENCES FROM PENTAGON REPORT ³¹

“KBR did not demonstrate the prices for Kuwaiti fuel and transportation were fair and reasonable.”

“KBR was unable to demonstrate the proposal was based on actual costs.”

“We consider KBR’s estimating system to be inadequate.”

“KBR was unable to reconcile the proposed costs to its accounting records.”

“KBR did not always provide accurate information”

“KBR has failed to demonstrate adequate competition in its procurement decision.”

“KBR did not comply with the stated terms and conditions of its own subcontract clauses.”

“We found significant purchasing system deficiencies.”

ing that the Pentagon would be investigating two employees who worked on the Iraq contracts.²² (It is not clear if Mazon was one of them.)

And at least one other Halliburton procurement manager was apparently fired following questionable circumstances. In postings on a Web blog titled “A Minute Longer—A Soldier’s Tale,” Laszlo Tibold, who was responsible for procurement at Camp Anaconda in northern Iraq, was accused of awarding a gravel contract at five times the price of a competing offer.

A March 12, 2004 posting to the website, credited to the email address of Randy Harl, chairman of Halliburton’s subsidiary Kellogg, Brown and Root (KBR), says “Mr. Tibold has since been fired for his contract-writing there at Camp Anaconda, along with some of his buddies. However their contracts still remain and we continue to pay against them.”²³

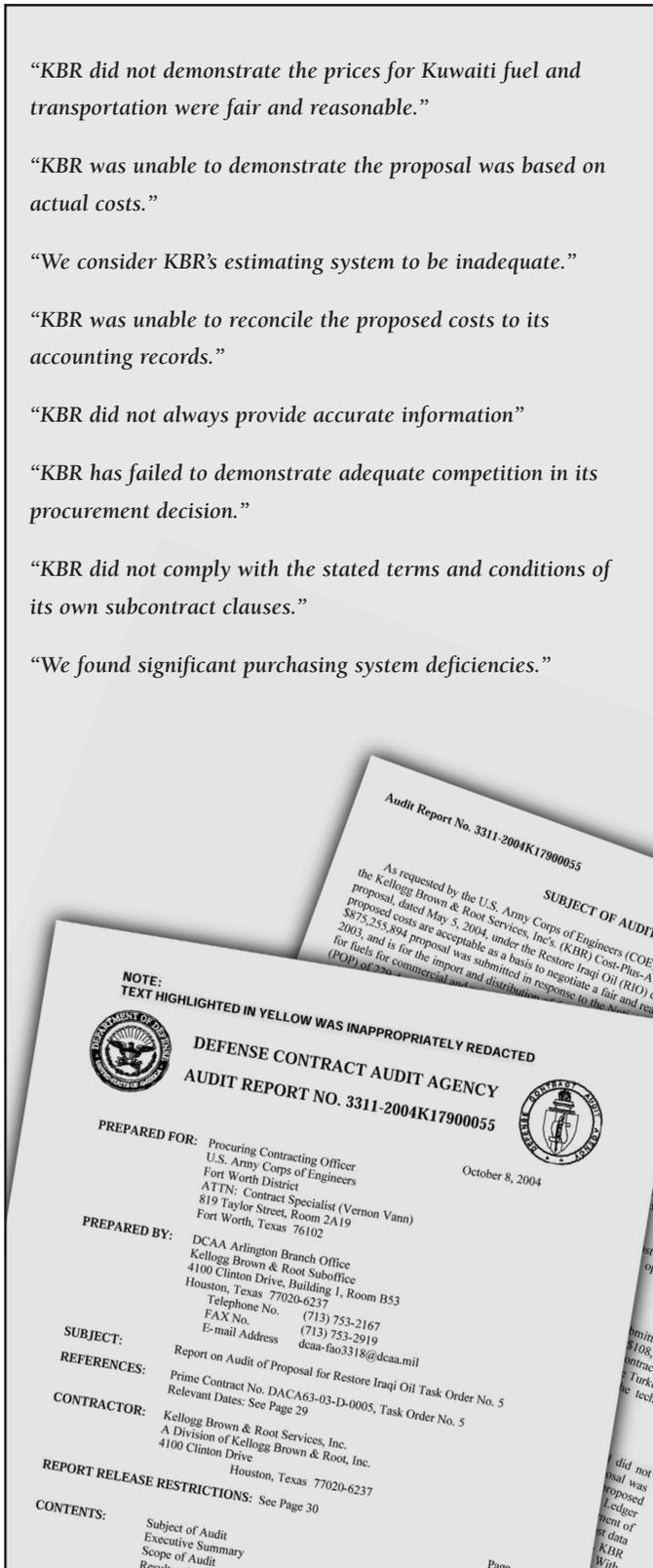
“Butch” Gatlin, the man in charge of procurement in Kuwait, has also left Halliburton. On February 15, 2004, Gatlin sent a terse letter to his bosses, which read: “This project has grown to such proportion and the issues and problems which have ensured (sic), I feel my leadership and management are ineffective (sic) and non-productive. I therefore request to tenure (sic) my resignation with this project, effective (sic) immediately.”

On April 10, 2004, less than two months later Gatlin wrote to his boss, reiterating his resignation as a Halliburton employee, and simultaneously asking for work as a sub-contractor, causing a ripple of concern at the company.

“I am generally pretty skeptical about doing business with a former employee,” Halliburton lawyer Chris Heinrich wrote in another internal memo. “There is not a law or a company policy that prohibits us from doing so, but we need to be sure about what kind of business he is starting and who he is aligned with. He must have a Kuwaiti sponsor or he cannot have a business. We need to have him fully disclose all the pertinent info regarding his business and then decide if we will allow him to bid on work.”²⁴

Rumors continue to swirl about who might next be charged with fraud. Marie deYoung believes the indictments issued against Mazon and Hijazi may be only a curtain-raiser for things to come. The charges against Mazon and Hijazi, she estimates, are “just the tip of the iceberg.”²⁵

In addition, a separate lawsuit, filed October 26, 2004, charges that Halliburton has refused to pay \$20.4 million for food services and other work near the city of Tikrit provided in 2003 by



the Kuwait Company for Process Plant Construction & Contracting (KCPC) and the Morris Corporation of Australia for several months after the invasion of Iraq. This sub-contract is also mired in allegations of demands for a \$3 million kick-back during the original 2003 contract negotiations. “They wanted kickbacks of 3 percent to 4 percent, which pushed up the prices because then the subcontractors would add the price of the kickbacks to their costs,” an unnamed source told the *Sydney Morning Herald*, which first reported the story. Halliburton says it fired KCPC and Morris because the two companies had fallen behind schedule.²⁶

PENTAGON COVER-UP

Meanwhile, Halliburton has been under scrutiny for overcharging on gasoline supplied to the military in Iraq under the secretly awarded RIO contract. Altogether Halliburton charged the military \$1.48 billion to supply fuel from May 2003 to March 2004. A subsequent Pentagon internal audit confirmed that the allegations were true, but this information was blacked out of the version of the audit report provided in October 2004 to the International Advisory Monitoring Board (IAMB), an international body created by the May 2003 United Nations Security Council Resolution 1483, that is responsible for making sure that Iraq’s oil revenue is properly spent.²⁷

Some five months later, an uncensored version of the audit report, obtained by Congressman Henry Waxman, showed what the military had censored from the report—\$108 million in overcharges for importing fuels into Iraq. For example, the Pentagon noted that Halliburton asked for \$27.5 million to ship \$82,100 worth of cooking and heating fuel to Iraq from Kuwait—335 times the actual cost of the liquified petroleum gas, a charge the Pentagon auditors said was “illogical.”²⁸

According to Waxman, “The extensive redactions in the audit were apparently made at the specific request of Halliburton.” He cited a Halliburton letter written to an Army official which states, “[W]e have redacted the statements of [auditors] that we believe could be used by a competitor to damage KBR’s ability to win and negotiate new work.”²⁹

In April 2005, the \$108 million overcharge turned out to be just one of many. Other audits from the Defense Contract Audit Agency indicated that the total amount of questionable costs topped \$212.3 million. A review of these audits by Waxman’s staff shows that references to overcharges and other questioned costs were blacked out over 450 times in the versions of audits sent to the IAMB.³⁰

ACCOUNTING FRAUD

Former Halliburton accountants filed a class action lawsuit in Dallas, TX, in August 2004, alleging “systemic” accounting fraud from 1998 to 2001.⁴⁸ The lawsuit claims chief executive officer David Lesar and three other executives illegally inflated profits for the KBR subsidiary. The alleged fraud occurred by overbilling for services, overstating the amounts owed by customers and understating amounts owed to vendors and issuing sham invoices. Employees were told to do “whatever it took” to boost profits.⁴⁹ Plaintiffs say David Lesar misled investors by publicly claiming, “there have been no adverse developments” related to asbestos liabilities even though, five weeks earlier, a Texas jury had awarded a \$130 million asbestos verdict against Halliburton.⁵⁰ The plaintiffs say company executives illegally failed to disclose the verdict to investors for three months.

A previous class action suit, filed by shareholders in 2002, maintains that Halliburton illegally failed to inform investors of an accounting change.⁵¹ The company began recognizing cost-overruns as revenue, rather than expenses, but failed to disclose this change on investor reports for multiple reporting periods. The fraud artificially increased revenue by \$450 million from 1998 to 2002, the plaintiffs allege. In August, Halliburton paid the SEC \$7.5 million and agreed to stop “committing or causing future securities law violations.”⁵² The following month, a Dallas federal judge rejected a proposed \$6 million settlement of the shareholder lawsuit, saying the amount involved was too small.⁵³

WORK CONDITIONS

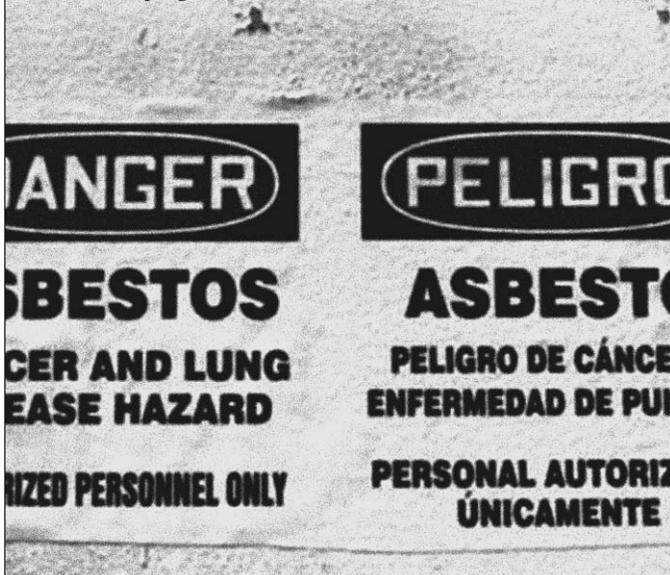
Even Halliburton’s rank-and-file workers in Iraq are now up in arms. Most of them are lured to the country based on rumors of salaries ranging from \$80,000 to \$120,000 annually. What the company often fails to mention is that their employees are contracted to a Cayman Islands subsidiary of Halliburton named Service Employees International and paid less than \$16 an hour. In order to earn the high salaries, they must work 12 hours a day, seven days a week, under extremely harsh working and living conditions.³⁵

The company also glosses over the fact that once employment with Halliburton ends under Texas law, the workers are not

ASBESTOS LAWSUITS

Halliburton subsidiaries DII Industries (formerly known as Dresser Industries) and KBR filed for bankruptcy protection in December 2003 for the purpose of minimizing asbestos liability. Halliburton purchased DII Industries in 1998 under the direction of former chief executive officer Dick Cheney. The acquisition meant that Halliburton inherited 300,000 asbestos claims filed against DII, who had for years manufactured construction products which contained the harmful substance. KBR also had manufactured products containing asbestos and has been fighting asbestos lawsuits since 1976.³⁴ Asbestos causes scarring of the lung tissue (asbestosis), cancer of the pleural lining (mesothelioma) and lung cancer. Victims allege the companies knew of the health risks of asbestos long before they took it off the market.³⁵

The bankruptcy proceedings halted all personal injury lawsuits arising from the asbestos claims. A settlement agreement was finalized in January 2005 with plaintiffs to settle all present and future asbestos claims against Halliburton. This settlement required Halliburton to finance a victim's trust fund with \$2.775 billion in cash and 59.5 million shares of Halliburton common stock. Not that this has hurt the company too badly, as it has already collected some \$1 billion of this money from over 150 insurance companies and expects to collect at least another \$500 million. In addition the company wrote off \$1.016 billion in losses in the fourth quarter of 2003 helping reduce its taxes.³⁶



entitled to unemployment benefits. In one typical case, the Texas Workforce Commission ruled against a former Halliburton employee by concluding: “The claimant is not entitled to unemployment benefits because [Halliburton’s foreign subsidiary] does not satisfy the definition for an ‘American employer’ under the [Texas] statute.”³⁶

Not only are the conditions harsh, but those who complain about problems can get into a lot of trouble. Ronald Chavez, an American security coordinator for Halliburton at the Baghdad airport, says he was gang-beaten in late March 2005 by a group of fellow employees, known as the “Red Neck Mafia.” The abuse allegedly occurred because Chavez had made reports about overcharging, as well as the airport’s vulnerabilities to attacks from the resistance, to higher authorities within the Halliburton chain of command.

Conditions are much worse for non-American employees. For example, four men from India were hired by Gulf Catering Company, a Saudi company subcontracted by Halliburton to provide food services at six American bases in Iraq. The men worked as butchers for \$385 a month, while their supervisor confiscated their passports and a portion of their monthly salary. They were told that they were obligated to work in Iraq for six months without being allowed to leave. “We were in hell,” said one of the men, when he returned to India with his brother. Gulf Catering Company confirmed it employed the four men, but denied that the men were exploited, underpaid, or prevented from leaving Iraq. They said the men’s passports were kept for “safekeeping” and that they were allowed to leave at any time.³⁷

Another little-known fact is that over 60 civilian employees of Halliburton have been killed working in various support roles for the troops in Iraq and Kuwait.³⁸ And many more employees are returning home before their 12-month contract is completed (thus losing their tax-free status) because of the daily roadside bombs, mortar fire, rocket-propelled grenades, bullets, and the constant threat of kidnappings. Even if employees return home without physical injury, the nightmare of war can still be alive in the mind. The psychological problems make it difficult to gain employment back home.³⁹

FAMILIES SUE

Workers and their families are now suing the company for wrongful death and injuries sustained in Iraq. April Johnson, the daughter of Tony Johnson—an American truck driver for Halliburton killed in Iraq—brought a federal lawsuit against the company in late March 2005.⁴¹

RETIREES **SUED** FOR COMPLAINING ABOUT HEALTH BENEFIT CUTS

In 2004, three Halliburton retirees complained in a letter about the company's plan to discontinue health insurance benefits. The retirees claimed a 1998 merger agreement between Halliburton and Dresser Industries requires Halliburton to continue paying the benefits to 4,000 retired Dresser workers. "My father worked for years and years for this company, and then they pull the rug out," the son of a retired Dresser worker told the Houston Chronicle.⁵⁷ In response, Halliburton sued them in a Houston federal court. A federal judge dismissed the lawsuit and ordered Halliburton to continue paying the benefits. The judge noted that the benefits cost Halliburton only one-half of 1 percent of its revenue for 2003.⁵⁸

The date of Johnson's death—April 9, 2004—was quite possibly the most dangerous day to travel in Iraq so far. On that day, Moqtada al Sadr, the fiery young Shia leader, had ordered his militia, the Mahdi army, to attack anyone who left their homes. Less than a week prior, the Mahdi had seized control of several cities in the south, just as the U.S. military had started the first bombing of Fallujah.⁴²

Indeed, the U.S. military had officially declared all roads too dangerous to travel for civilian convoys that day, via a color-coded system that defines the threat levels in Iraq. "Black" means that all traffic on the roads is prohibited, "red" means that a convoy can be deployed in the event of an emergency, "amber" means that the road is clear, while "green" indicates that there is no threat at all.⁴³

Just one day earlier, a Halliburton convoy had been attacked and on this day, two convoys had already turned back because of the violence on the road. Despite the fact that the threat level had been raised to "black" that weekend, Halliburton officials ordered the 19 uneasy men to take to the road to deliver fuel to the airport.⁴⁴

That morning, Johnson was told to join a convoy to transport 125,000 gallons of jet fuel, with 18 other drivers from Camp Anaconda to Baghdad airport. The group was very poorly organized, according to interviews with the men who survived.

FRIVOLOUS **LAWSUITS**

"We need legal reform because the strength of our economy is undermined by frivolous lawsuits," declared Vice President Dick Cheney during the 2004 presidential campaign.⁵⁹ But during Cheney's tenure as chief executive officer, Halliburton petitioned America's legal system 30 times per year.⁶⁰ Although Halliburton earns billions in revenue annually, it sued people or corporations in small claims court for as little as \$1,500. It sued 15 debtors for less than \$10,000 each, 24 debtors for less than \$15,000 each and 40 debtors for less than \$100,000 each. Would Cheney label these claims "frivolous"? The real increase in litigation has come from corporate America, not consumers seeking compensation for personal injuries. The number of corporate lawsuits exceeds those filed by individuals and nearly half of all federal court actions are filed by corporations suing other corporations.⁶¹

They were driving unarmored military vehicles rather than their normal white civilian trucks, making them an open target. The truckers say that the company dispatched the men on a route that none of them were familiar with, despite the fact that another company convoy traveling the same route had been hit earlier in the day, losing several vehicles.⁴⁵

The convoy drove straight into a major gun battle on April 9, 2004, on what has become the world's most dangerous highway. Two hours later six drivers had died, one was kidnapped and one had disappeared. Only 11 made it to their destination alive that day—the first anniversary of the U.S. defeat of Saddam Hussein's regime in Iraq.⁴⁶

"It is our opinion, based on our investigations, that Halliburton's management has systematically, intentionally, and fraudulently misrepresented the true nature of their civilian employees' duties," says Ramon Rossi Lopez, the trial lawyer representing April Johnson in federal court in Santa Ana, California. "Simply put, Halliburton intentionally placed its employees in harm's way and received lucrative payment for a private, unarmed military force." Lopez is also representing several other truck drivers and their families, who were working on the same convoy, who have also brought lawsuits against the company.⁴⁷

OIL & GAS CONTRACTS

A. ENVIRONMENTAL IMPACT

HYDRAULIC FRACTURING

In 1949, representatives from Stanolind Oil Company and Halliburton Oil Well Cementing Company (now Halliburton Energy Services) invented a new technology intended to help the oil industry to break apart rock formations and hold them open so that oil or gas can be extracted. The engineers pumped a mixture of gasoline, napalm, crude oil and sand into the ground until the pressure was so great that the oil-bearing formation cracked apart.⁶² The injected fluids flowed into the fractures, and the sand remained to prop them open, while a portion of the other fluids flowed out of the well. According to Halliburton, this process “was to forever change the workings—and fortunes—of the energy business.”⁶³

Today, it is more common to use water mixed with chemicals and sand than napalm and gasoline in fracturing operations, although there are some toxic chemicals that are contained in fracturing fluids. These include hazardous substances such as diesel fuel, formaldehyde, hydrochloric acid and ethylene glycol, as well as more benign chemicals such as guar, a thickening agent commonly used in processed foods.⁶⁴

COPYCAT TECHNOLOGY?

In 2002, the company was charged \$98 million for copying a competitor’s (BJ Services) hydraulic fracturing fluid “Vistar” system. In 2003, a three-judge appeals court upheld the lower court ruling. In April of 2004, the Supreme Court refused to hear Halliburton’s appeal. By that time the original \$98 million award had risen to \$106 million due to interest on the fine.⁶⁸

Of the more than 30,000 oil and gas wells drilled each year in the U.S., about 90% are fractured, and analysts say that Halliburton services at least one-third of the wells that are fractured.⁶⁵ About 1% of the company’s fracturing business is in coal bed methane fields.⁶⁶ All told, hydraulic fracturing operations in North America generated more than \$1.5 billion for Halliburton, a good portion of the \$8 billion that the company earned for the energy-related services.⁶⁷

COAL BED METHANE

Hydraulic fracturing of methane gas trapped in underground coal beds has been taking place since the 1980s in two regions: the Warrior basin of Alabama, and the San Juan Basin of southern Colorado and northern New Mexico. At about the same time, landowners began to experience changes in their water quality and quantity. Stories of explosive levels of methane in homes, numerous wells simultaneously going dry, and gobs of black substances smelling of petroleum coming out of taps fed by drinking water wells were not uncommon in these two regions.⁶⁹

Most coal bed methane formations that have been exploited are much shallower than oil and natural gas reservoirs, and thus, in many cases lie very close to drinking water aquifers.⁷⁰ In some cases hydraulic fracturing fluids are injected directly into underground sources of drinking water to get to the methane.⁷¹

Soon landowners started to complain to state agencies about the explosions and water contamination, but these complaints were rarely seriously addressed by state agencies.⁷²

In 1994, a group of Alabama residents petitioned the U.S. Environmental Protection Agency (EPA) to force the state to regulate hydraulic fracturing under the federal Safe Drinking

Water Act. They argued that wells used to inject fracturing fluids should be regulated in a manner similar to wells used to dispose of waste from energy production, as both involve the injection of toxic substances that could harm drinking water supplies.

After a three-year legal battle, during which Halliburton lobbied heavily against regulation, the EPA was ordered by the courts to require Alabama to regulate hydraulic fracturing under the federal drinking water law.⁷³ In 1999, while Cheney was head of the company, EPA officials decreed that unless proper precautions were taken, “hydraulic fracturing has the potential to endanger [underground sources of drinking water].”⁷⁴

But it did not end there as Cheney continued to pursue the matter vigorously, even after he left the company. In 2001, after Cheney had become vice-president, he was asked by President George W. Bush to head up a Cabinet-level task force

SUSTAINABILITY, AS DEFINED BY HALLIBURTON

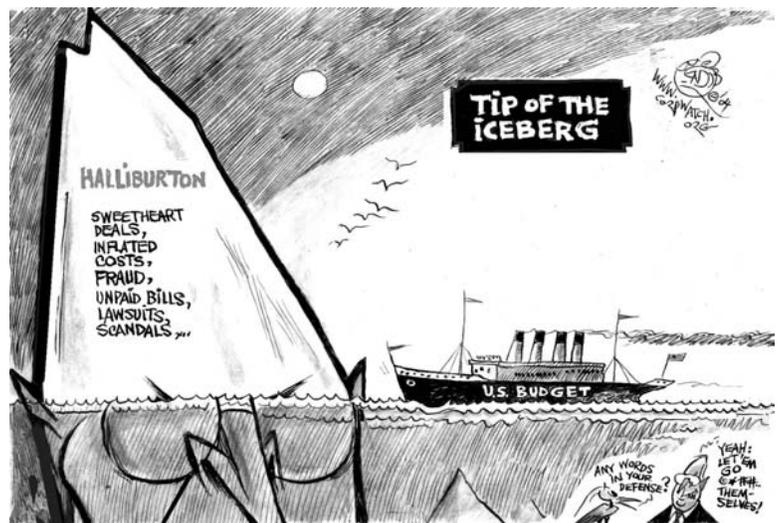
As we talk about sustainability, people often immediately think it's about creating a future planet for our children for generations. . . as the CEO of Halliburton Energy Services, the board of directors doesn't sit me down and say “John, make this a better planet.” They want us to make and create wealth for our shareholders and employees. So the only way we can adopt a sustainability agenda is it must create sustainable wealth for all our stakeholders.⁸⁶

John Gibson, president and chief executive officer, Halliburton Energy Services Group

Coal bed methane field in Powder River Basin, Wyoming

ONGOING INVESTIGATIONS INTO HALLIBURTON

- The U.S. Federal Bureau of Investigation (FBI) is investigating allegations by an Army official claiming that the Army Corp of Engineers illegally excluded Halliburton's competitors from bidding on Iraq contracts.⁸⁹ Bunnatine Greenhouse, an Army whistleblower, says the line between government officials and Halliburton had become so blurred that a conflict of interest exists.⁹⁰ The conduct appears to have violated specific federal contract-related regulations and calls into question the independence of the contracting process.
- The U.S. Department of Justice (DOJ) is conducting a criminal investigation into Halliburton's admission that it "may have paid" \$180 million in bribes to officials in the Nigerian government to win a multibillion dollar construction contract.⁹¹ Some of the bribes were paid during Dick Cheney's tenure as chief executive officer. Halliburton terminated its relationship with former KBR chief Albert Jack Stanley after discovering that \$5 million of the bribe money was allegedly deposited into his Swiss bank account.⁹²
- The Securities and Exchange Commission (SEC) is investigating a second bribery case involving Nigeria. Halliburton admitted that its employees paid a \$2.4 million bribe to a Nigerian government official for the purpose of receiving favorable tax treatment.⁹³ As the *Houston Chronicle* points out, "left unanswered is how a 'low-level employee' could channel that much money from the company to the pockets of a corrupt official."⁹⁴
- The DOJ has opened a criminal investigation of Halliburton's business dealings in Iran.⁹⁵ The company sells goods and services to Iran through a Cayman Islands subsidiary. The sales appear to have violated the U.S. trade embargo against Iran.
- The criminal division of the DOJ has issued a subpoena to a former employee of KBR to determine whether the company criminally overcharged for fuels imported into Iraq.⁹⁶ Meanwhile Pentagon auditors investigating the same matter found that KBR and its Kuwaiti subcontractor, Altanmia Commercial Marketing Company, had overcharged the military by \$174 million for importing fuel into Iraq under the Restore Iraqi Oil (RIO) infrastructure contract.⁹⁷ Other alleged overcharges under the same contract (not fuel imports) add up to another \$38 million, bringing the total overcharges to at least \$212 million. The Kuwaiti government, which has also been investigating the fuel overcharging, recently complained about the "lack of cooperation" by KBR and the U.S. military.⁹⁸
- The DOJ indicted Jeff Alex Mazon, a former KBR manager, and a Kuwaiti businessman on charges of defrauding the U.S. government of \$3.5 million over a fuel supply contract.⁹⁹ The two men are charged with rigging bids to favor KBR subcontractor LaNouvelle over other subcontractors and then with overcharging the U.S. military for fuel transport services at a Kuwait airport. The alleged fraud cost the U.S. military \$5.5 million for services KBR initially estimated would cost only \$685,000.



URTON AS OF APRIL 2005

- The Pentagon's Defense Contract Audit Agency (DCAA) has issued several audit reports related to task orders under KBR's RIO contract that reported \$212 million in questioned and unsupported costs.¹⁰⁰ The Pentagon fired Halliburton from its gasoline importation contract and assigned it to an office within the Pentagon known as the Defense Energy Support Center (DESC). The result was a 50 percent reduction in gasoline prices charged to U.S. taxpayers.¹⁰¹
- The DOJ is investigating possible over-billing for government service work done in the Balkans between 1996 and 2000. The charges stem from a General Accounting Office (GAO) report that found Halliburton billed the Army for questionable expenses for work in the Balkans, including charges of \$85.98 per sheet of plywood that cost them \$14.06.¹⁰² A follow-up report by the GAO in 2000 also found inflated costs, including charges for cleaning some offices up to four times a day.¹⁰³
- The International Advisory and Monitoring Board (IAMB), a watchdog established by the United Nations, is investigating the management of Iraqi finances by the now-disbanded U.S. Coalition Provisional Authority (CPA).¹⁰⁴ The Bush administration refused numerous IAMB requests for U.S. government audits about the payment of approximately \$1.66 billion in Iraqi funds to Halliburton, which is the single largest private recipient of Iraqi oil proceeds.¹⁰⁵ In October 2004, after failing to cooperate for months, the Pentagon finally sent the IAMB six of its audits. It was later found that portions of the audit were withheld from the IAMB to conceal damning evidence about KBR, including \$212 million in overcharges and "unreasonable costs" associated with importing fuel into Iraq.¹⁰⁶ The evidence was concealed from the public at KBR's request.¹⁰⁷
- In March 2005, the DOJ opened a criminal inquiry into possible bid-rigging on foreign contracts by Halliburton.¹⁰⁸



The company admitted it “may have” criminally rigged contract bids and said “information has been uncovered” that former employees of KBR “may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects and that such coordination possibly began as early as the mid-1980s....”¹⁰⁹

“Coordinating” with competitors to secure contracts with foreign governments is anticompetitive and a violation of U.S. antitrust law. The practice, known as “bid rigging,” is punishable by criminal fines and denial of future contracts with the U.S. government.

- The EPA is investigating complaints by Wes Wilson, one of its senior engineers, who said the agency distorts science in order to shield Halliburton from pollution laws.¹¹⁰ The engineer said the Bush administration purposely tampered with environmental science in order to shield a lucrative drilling technique, known as hydraulic fracturing, from all regulations. He believes the technique, pioneered by Halliburton, is harmful to drinking water supplies. Halliburton has spent years trying to get the federal government to exempt the technique from environmental regulations.

to develop a national energy strategy. His staff took this opportunity to pursue hydraulic fracturing once again.⁷⁵ The initial drafts of a report the task force developed contained language from the Energy Department that described hydraulic fracturing as essential to increasing domestic gas production and claimed that the regulation of fracturing under the Safe Drinking Water Act would hurt oil and gas production.

In June of 2004, the EPA released the final version of a report concluding that, “the injection of hydraulic fracturing fluids into coal bed methane wells poses little or no threat to USDW (Underground Sources of Drinking Water) and does not justify additional study at this time.”⁷⁶

This conclusion, while hailed by industry, was lambasted by citizens’ groups. A review of the EPA study, conducted by the Oil and Gas Accountability Project, found flaws in the Agency’s methodology and in the scientific data presented by the EPA. The review also found proof that toxic fracturing fluid chemicals are allowed to be injected into or close to drinking water at concentrations that pose a threat to human health.⁷⁷

In October 2004, Wes Wilson, an EPA environmental engineer, sought whistle-blower protection after telling lawmakers and the EPA Inspector General that the EPA fracturing study was scientifically unsound. Wilson’s statement further alleged that the study’s findings were premature, that hydraulic fracturing may endanger public health, and that the recommendations approved by an industry-dominated review panel included a current Halliburton employee.⁷⁸

After receiving numerous letters from lawmakers, the EPA Inspector General decided in March 2005, to review information related to issues raised by Wilson and others to determine if there were major flaws with the EPA study.⁷⁹

NON-TOXIC ALTERNATIVES

Numerous scientific studies have shown that it is possible to conduct fracturing with plain water. In August 2003, the EPA began working with Halliburton and two other major hydraulic fracturing companies (Schlumberger Technology and BJ Services) to see if they might be willing to sign an agreement to voluntarily remove one of the toxic fluids, diesel fuel, from their hydraulic fracturing fluids.⁸⁰

But Halliburton informed the EPA that if water were used instead of diesel, “the transportation costs would increase hence reducing the profitability of the frac job.”⁸¹ The compa-

GAS EXPLOSION LAWSUIT

In July 2004, a jury found a Halliburton subsidiary not liable for injuries suffered by four Phillips Petroleum workers who were severely burned by a K-resin tank explosion in Deer Park, Texas.⁸⁷ The March 2000 blast injured 69 people and killed one. Four victims sued KBR for \$130 million, arguing that the company’s engineers failed to properly evaluate the chemical tank or design adequate safeguards. “The [KBR] engineers completely failed to do the very first step and that is find out what was in this tank,” John Eddie Williams, lawyer for the plaintiffs, told KHOU.com in Houston.⁸⁸ “They thought it was something like water and it was a highly hazardous reactive chemical,” he said. “They completely blew it because they treated it like it was water.” Phillips Petroleum paid \$2.1 million in federal penalties because of the explosion.

ny also told the agency that “some alternatives to the use of diesel as a carrier fluid that are presently under consideration may be polymer-based rather than water-based. . . adding that “the potential impacts of all such alternatives need to be studied further.”⁸²

However, Halliburton staff did not furnish data on the toxicity of these new polymer-based fracturing fluids, nor did the company provide the EPA with groundwater data to prove that the chemicals were being injected at safe concentrations. Meanwhile, the company put pressure on the EPA to agree to co-sign a voluntary understanding that the diesel substitutes should merely not “endanger” drinking water, rather than have to meet more stringent water quality standards.⁸³ No additional agreements have been struck on other hazardous chemicals used in fracturing, such as antifreeze agents like ethylene glycols.⁸⁴

Halliburton has touted its “sustainability” practices in industry journals. Recently, John Gibson, chief executive officer of Halliburton Energy Services Group, promoted a drilling fluid made from vegetable oils instead of toxic hydrocarbons, which “helps eliminate the probability of being fined and disposal problems”⁸⁵ although these have yet to be used for fracturing.

B. HALLIBURTON ABROAD

NIGERIA

Bribing foreign officials is prohibited by the U.S. Foreign Corrupt Practices Act, a law passed in 1976 after a post-Watergate SEC investigation uncovered an epidemic of overseas bribery by American multinational corporations.¹¹¹

In November 2004, Halliburton admitted that bribes “may have been paid” to Nigerian officials in order to win a multi-billion dollar natural gas liquefaction contract.¹¹²

Investigators in France say the bribes amounted to more than \$180 million and were paid from 1995 to 2002 by a consortium of four companies collectively known as “TSKJ,” with Halliburton’s KBR subsidiary as the lead partner.¹¹³ TSKJ ultimately won the contract in 1995 and has received \$12 billion from Nigeria for building and expanding the natural gas plant over the last 10 years.¹¹⁴

TSKJ is a private limited liability company registered in Portugal and owned in equal 25 percent shares by Halliburton’s KBR, Technip of France, JGC Corporation of Japan and Snamprogetti Netherlands, an affiliate of the Italian group ENI.

Halliburton admitted that TSKJ paid \$132 million in “advisory fees” to London lawyer Jeffrey Tesler to negotiate the contract with Nigeria.¹¹⁵ Tesler and Halliburton say they agreed not to use the money for bribery, but a French judge investigating the matter said the payments were exorbitantly high and “appear completely unjustified.”¹¹⁶ The judge believes TSKJ hired Tesler to funnel the money to his friendly contacts in the Nigerian government, including the now-deceased dictator General Sani Abacha, who ruled the country during the 1990s.

French authorities say TSKJ made four payments totaling at least \$166 million at times that roughly coincide with the award of contracts.¹¹⁷

In fall 2004, Halliburton’s attorney James Doty discovered notes written by employees of the company M.W. Kellogg between 1993 and 1998 in which they discussed bribing Nigerian officials.¹¹⁸ The notes, written just before the company merged with Halliburton in 1998, indicate that “people may at the time have been planning or contemplating the necessity of money for the purpose of making bribes,” Doty told the *Wall Street Journal*. “There is no way to read these materials and not be concerned about that,” he said.

Some of the bribe money was allegedly kicked-back to members of the conspiracy, including Albert Jack Stanley, chairman of KBR. A Swiss bank account controlled by Stanley received between three and five percent of the bribery payments, according to French investigators. When the account was seized by authorities, it contained \$5 million.

Halliburton has since terminated its relationship with Stanley, saying he violated the company’s “code of business conduct” by accepting “improper personal benefits” related to the Nigeria contract.

Another employee, William Chaudan, the Halliburton representative at TSKJ, was also terminated for accepting improper payments. Tesler allegedly deposited \$1 million into an account held by Chaudan. “The company has since learned that even larger sums may have gone into the accounts of Mr. Stanley and Mr. Chaudan,” the *Dallas Morning News* reported.¹¹⁹

At the request of French investigators, the Swiss government shut down the bank accounts allegedly used by TSKJ to pay the bribes.¹²⁰ The accounts contained \$100 million.

Incidentally, Stanley was directly appointed to his job by Dick Cheney, by his own admission, while he was running Halliburton. In 1999, he told the *Middle East Economic Digest* that, he “took Jack Stanley ... to head up the organization and that has helped tremendously.”¹²¹ Stanley reported to David Lesar, Halliburton’s president and chief operating officer at the time, who in turn reported directly to Cheney.¹²²

French investigators are purportedly considering summoning Cheney to provide testimony to determine whether he knew about the alleged bribery.¹²³ 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 comparison, the U.S. anti-bribery law applies only to executives who are aware of illicit payments to foreign officials.)¹²⁴

In addition to the French investigation, the DOJ has opened a criminal investigation into Stanley, Halliburton, and KBR. The SEC is conducting an investigation as well.¹²⁵

The chairman of a Nigerian government committee investigating the scandal complained in August 2004 that Halliburton has been reluctant to provide evidence in the case.¹²⁶ The com-

mittee issued a report describing a comical attempt by Halliburton to avoid answering questions by claiming that KBR is not a subsidiary of Halliburton.¹²⁷ As a result, the Nigerian House of Representatives voted unanimously to ban Halliburton and TSKJ from future government contracts. The president of Nigeria later approved the ban after complaining about Halliburton's "negligent" safety record in handling radioactive material.¹²⁸

IRAN

The DOJ is investigating Halliburton's business relationship with Iran, one of the countries President Bush had named as the "axis of evil." Federal sanctions forbid American companies from doing business with Iran, but foreign subsidiaries are exempt as long as they don't employ U.S. citizens or exercise direct control over the business.¹²⁹

Halliburton's Cayman Islands subsidiary, Halliburton Products and Services Limited (HPSL), does between \$30 and \$40 mil-

lion in oil-related work in Iran annually. But investigators think the subsidiary is a front used to hide the fact that the subsidiary's operations are actually directed out of Halliburton's Houston headquarters in violation of sanctions.

A query initiated by the Comptroller of New York State (a trustee for various pension funds that own Halliburton shares) and a *CBS News* investigation resulted in a *60 Minutes* story titled "Doing Business with the Enemy." The report found that HPSL's Cayman operations contain nothing more than a post office box and that its Iranian operational headquarters were actually located at Halliburton's offices in Dubai, in the United Arab Emirates, directly under the control of executives in Houston.¹³⁰ In response, Halliburton's Houston headquarters denied any involvement in HPSL and said it had "taken care to isolate its entities that continue to work in Iran from contact with U.S. citizens or managers...."¹³¹

The company's denials did not convince a federal grand jury in the Southern District of Texas, which opened a criminal inves-

South Pars natural gas project, Iran. Photo: National Iranian Oil Corporation.





Yousef Al-Ageli, Associated Press.

Libyan traditional musicians play in front of a Halliburton booth at “oil week” in Tripoli on September 15, 2004.

tigation and issued a subpoena requesting company documents.¹³² Yet, despite the investigation, Halliburton recently announced an expansion of Iranian operations by agreeing to help two Iranian companies—Oriental Kish and Pars Oil and Gas Company—extract up to 500 trillion cubic feet of natural gas in the country’s South Pars region.¹³³

News of the deal angered Halliburton’s shareholders and members of Congress, but company executives have consistently thwarted attempts to terminate operations in Iran. In May 2004, for example, company lobbyists successfully defeated proposed federal legislation that would have outlawed all corporate investment in Iran.¹³⁴ But the pressure on Halliburton appears to have had some effect. In January 2005, the company—citing dismal business conditions in Iran—announced it would not enter into any new contracts there, but the news may have been an attempt to influence the ongoing grand jury investigation. To date, no concrete assurances have been given as to when current operations will actually end.¹³⁵

LIBYA

In 2004, the Bush administration partially lifted a ban on U.S. companies doing business with Libya, after President Mohammad Qaddafi promised to terminate any ongoing weapons of mass destruction programs.¹³⁶ Interestingly, Halliburton had already been doing business with the country via several foreign subsidiaries—even while the ban was in place. Once again, that’s because their foreign subsidiaries were allowed to continue business ties with Libya. (Indeed, Halliburton’s Brown & Root subsidiary paid the U.S. a \$3.8 million fine, in 1995, for selling pulse neutron generators to Libya. The devices are used for oil drilling and can be used to trigger nuclear bombs.)¹³⁷

Maintaining an ongoing relationship with Libya could give Halliburton a head start in the bidding for new contracts in a post-sanctions environment. In September 2004, a senior vice president of the company gleefully told investors that Halliburton was “preparing the expansion of our presence in

Libya.”¹³⁸ This presence has actually existed for a while, and endured even after the country confessed to the 1988 bombing of Pan Am 103. “Libya is certainly [a nation] where we think we can hit the ground running,” he added. “And so we should... see some good returns there fairly quickly.” In addition, Halliburton has now applied to the Nuclear Regulatory Commission for permission to export radioactive material used to service oil wells to Libya.¹³⁹

BRAZIL

Halliburton's Barracuda-Caratinga project, located off the coast of Brazil, is converting two supertankers—one named Barracuda, the other named Caratinga—into production, storage, and offloading vessels. The vessels sit atop deepwater oil fields with a production capacity of 300,000 barrels of oil per

day. The \$2.5 billion project was awarded to Halliburton's KBR subsidiary by Brazil's state-owned oil company Petrobras. It was scheduled for completion in 2004, but mismanagement and cost overruns have delayed the project. When it was announced in October 1999, then chief executive Dick Cheney said: “We are proud to be selected as the preferred bidder.”¹⁴⁰ But the project created \$762 million in new red ink and helped depress Halliburton's stock price for years.¹⁴¹ As is typical with Halliburton, the company demanded the customer pay for the cost overruns, but Petrobras refused, creating a legal squabble that further delayed completion of the project. In December 2004, both parties settled the dispute and the new date for completion of the project has been set at June 2006. “[W]e anticipate meeting these completion targets,” Halliburton reported in a public filing, but with the qualifier, “there can be no assurance that further delays will not occur.”¹⁴²

Barracuda-Caratinga offshore oil fields, Campos basin, Brazil. Photo: Petrobras.



CORPORATE WELFARE & POLITICAL CONNECTIONS

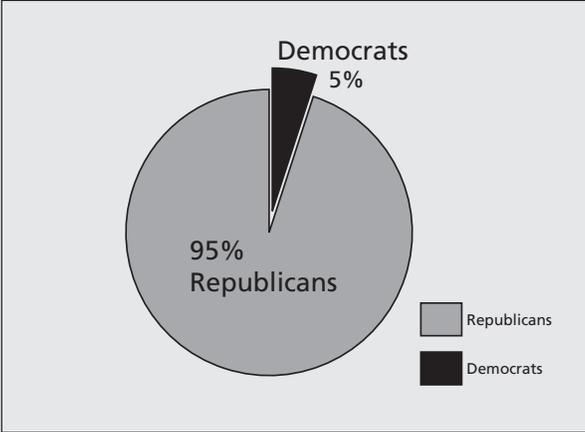
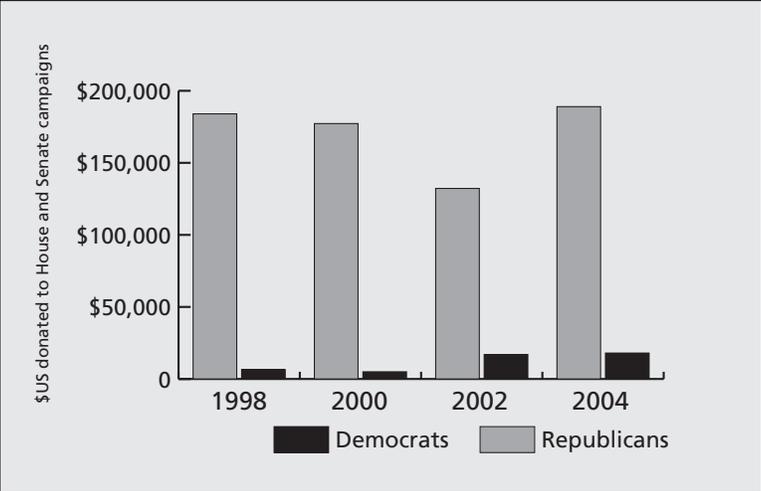
CAMPAIGN DONATIONS

Halliburton's political donations in the 2004 federal campaign reflect its corporate imperative to put and keep Republicans in charge of Washington affairs. The company's political action committee (PAC) has shown ongoing Republican bias. The Halliburton PAC poured \$189,000 into Republican campaigns and just \$18,000 into Democrat candidacies. Over the past four federal election cycles, the Halliburton PAC was sixteen

times more likely to support a Republican than a Democrat. [See tables below]

Halliburton's institutional allegiance to Republican politicians is further reflected in individual contributions by its board members. Over 97 percent—\$343,717—of the board members' donations went toward Republican campaigns, compared to just \$9,810 for Democrats.

HALLIBURTON PAC



Source: Original synthesis of political contributions records; data obtained from opensecrets.org, the Web Site of the Center for Responsive Politics.

Includes Halliburton PAC donations and individual Halliburton directors' donations to federal candidates, 2003-04. Halliburton's PAC and directors contributed \$532,717 to Republican candidates, and \$27,810 to Democrats. Data obtained from opensecrets.org, the Web Site of the Center for Responsive Politics.

TOP TEN RECIPIENTS

Halliburton PAC and Directors' Donations, 2004 federal elections		
#1	President George Bush (R) <i>Beat Sen. John Kerry, 51%-48%</i>	\$18,000
#2	Peter Coors (R-CO) <i>Lost to Sen. Ken Salazar, 47%-50%</i>	\$12,815
#3	Rep. Don Young (R-AK) <i>Won with 72% of vote</i>	\$10,000
#4t	George R Nethercutt Jr (R-WA) <i>Lost to Sen. Patty Murray, 43%-55%</i>	\$8,000
#4t	Bill Jones (R-CA) <i>Lost to Sen. Barbara Boxer, 38%-58%</i>	\$8,000
#6	Sen. Richard Burr (R-NC) <i>Beat Erskine Bowles, 52%-47%</i>	\$7,000
#7t	Rep. Heather Wilson (R-NM) <i>Beat Richard Romero, 55%-45%</i>	\$6,624
#7t	Rep. Pete Sessions (R-TX) <i>Beat Rep. Martin Frost, 54%-44%</i>	\$6,624
#9	Rep. David Vitter (R-LA) <i>Beat Chris John, 51%-29%</i>	\$6,500
#10	Gregory Edward Walcher (R-CO) <i>Lost to Rep. John Tony Salazar, 47%-51%</i>	\$5,624

Original synthesis of political contributions records; data obtained from opensecrets.org, the Web Site of the Center for Responsive Politics.

LOBBYING EXPENSES

The Republican power sweep in the 2000 elections allowed Halliburton to pare its costs of lobbying Congress and the executive branch. Over the final years of the Clinton administration, Halliburton's lobbying bill ran at \$600,000 annually. Halliburton cut its lobbying expenses in half—to \$300,000 a year from 2001 through 2003—after Bush and former chief executive officer Cheney assumed power.

But the growing number of investigations into Halliburton's government contracts and overseas activities led to a nearly three-fold increase in lobbying expenses in 2004. Halliburton boosted its in-house lobbying program by \$100,000 and hired an outside firm, Covington & Burling, for \$560,000, bringing its total Washington lobbying expenses to a record \$960,000.

Covington & Burling lobbied Washington on behalf of KBR's Government Operations division, the same division being pummeled by the media, the Pentagon, and Congress for its handling of Iraq contracts. Covington & Burling handles "inquiries concerning [the] company's construction and service contracts in Iraq," KBR reported.

According to company filings, Halliburton lobbyists campaigned on dozens of issues in 2004, although they discussed only a select few directly with the White House. One top-priority issue for Halliburton was an Internal Revenue Service proposal to remove excise tax exemptions from mobile machinery, such as drilling rigs.

The remainder of the lobbyists' discussions with the White House revolved around barriers, particularly sanctions, to Halliburton's overseas business, and getting more government finance for overseas projects. Halliburton discussed the Alien Tort Claims Act, a law that holds multinational corporations accountable for their overseas activities. It also spent a great deal of money lobbying for programs that finance the company's overseas ventures, particularly the U.S. Export-Import Bank (ExIm) and the Overseas Private Investment Corporation (OPIC).¹⁴³

This has paid off well—in 2004, ExIm approved two loans for projects in which Halliburton holds contracts—\$400 million for a PEMEX development in Mexico, and \$909 million for a liquefied natural gas project in Qatar.¹⁴⁴

Cheney's political priorities as Halliburton's chief executive officer, such as efforts to lift sanctions from oil-rich countries, also remain major components of the company's current agenda. Halliburton lobbyists also fought against new proposed sanctions on companies doing business with terrorist states, a fight that Cheney himself supported in the late 1990s.¹⁴⁵

SECURITY AGENDA

Halliburton's lobbying efforts also dovetailed with efforts by the National Petroleum Council (NPC), which the Center for Public Integrity exposed in 2004 as a front for the oil and gas industry. "The National Petroleum Council, a little-known federally chartered but privately funded advisory committee, has been an underground pipeline of political influence for the oil and gas industry in Washington for years," reported the Center for Public Integrity researcher Kevin Bogardus.

Cheney and many Bush "Pioneers"—the club of super-fundraisers in the 2000 election—crafted a December 1999

LOBBYING EFFORTS 2004

ISSUE	HOUSE(S) OF CONGRESS AND FEDERAL AGENCIES CONTACTED
The Fairness in Asbestos Injury Resolution (S 1125)	House, Senate
Litigation and class action reform (HR 2431, HR 1115, S 2062)	House, Senate
Defense authorization bills	Defense Dept., House, Senate
Contracting related to contingency operations	Defense Dept., House, Senate
S 2095, HR 6, S 14 Energy bills	Energy, Interior and Treasury Depts., House, Senate
Dept of Energy Appropriations	Energy, Interior and Treasury Depts., House, Senate
Idaho National Lab contract	Energy, Interior and Treasury Depts., House, Senate
FY2005 Foreign Operations bill	Commerce, Energy and State Depts., EXIM Bank, OPIC, Trade & Development Agency, House, Senate
OPIC, Export-Import Bank, TDA funding	Commerce, Energy and State Depts., EXIM Bank, OPIC, Trade & Development Agency, House, Senate
Energy services included in the ongoing round of the WTO	Commerce, Energy and State Depts., EXIM Bank, OPIC, Trade & Development Agency, House, Senate
Government reform and oversight	House, Senate
Fair Credit reporting act	House, Senate
Procurement and acquisition	House, Senate
Contingency contracting related to military operations	House, Senate
Health legislation (HR 1, S 11, HR 5, S 1)	House, Senate
Homeland Security	House, Senate
Immigration and visa laws and regulations	Commerce and State Depts., House, Senate
Labor legislation (HR 1176- Pensions; HR 2665—Overtime)	House, Senate
Sea-based construction	Defense Dept., House, Senate
"Involvement in reaching out to small business"	Commerce Dept., SBA, House, Senate
Tax legislation (HR 4520; S 1637; particularly the "Lautenberg" amendment, which intended to prevent foreign subsidiaries of U.S. corporations from doing business in countries that support terrorism.)	Labor Dept., House, Senate
Highway bill reauthorization (particularly, the Internal Revenue Service's proposed excise tax on oil drilling rigs)	White House Office, Transportation and Treasury Depts., House, Senate
Sanctions legislation (including Sudan, Burma sanctions, sanctions reform legislation, alien tort claims), OPIC funding	White House Office, Justice and State Depts., USTR, House, Senate

NPC report that “has become a cornerstone of today’s energy policy,” said Bogardus.

Also, through the NPC, Cheney and Halliburton lobbyists tried to reduce public disclosure of energy company information held by the government. “As head of the committee, Cheney pushed hard to convince the federal government to exempt information it collected from energy companies from the Freedom of Information Act,” reported Bogardus.

Cheney said at a December 15, 1999, NPC meeting: “We want to make certain that there’s no infringement with respect to proprietary information. We’re not interested in collecting individual company data and publishing anything like that.”

Halliburton’s chief lobbyist, former three-star Army Corps of Engineers General Chuck Dominy, continued to raise this issue after Cheney became the country’s vice president. “Clearly, [the] Freedom of Information issues have got to be addressed, and there’s got to be absolute protection for the private sector as we go forward with this,” Dominy said at a May 2001 meeting.¹⁴⁶

OTHER ADVANTAGEOUS RELATIONSHIPS

In early 2004, facing an SEC investigation into allegedly corrupt Cheney-era payments in Nigeria, Halliburton said it hired an unnamed lawyer to conduct an internal review. Yet, a corporate crime investigator recently revealed that this “independent investigator” was in fact closely tied to the White House. He was a former SEC general counsel and Bush family lawyer, James Doty. The lead partner of Baker Botts—the law firm that helped to deliver Florida to the Bush campaign in 2000—Doty also represented Bush when he bought a share of the Texas Rangers in the late nineties. Before that, he was general counsel to the SEC at a time when the commission investigated Bush’s insider trading at Harken Oil.¹⁴⁷

In 2005, Halliburton’s KBR subsidiary invited Joe Allbaugh onto its team of advisors. It turns out, Allbaugh was an even closer Bush associate. He managed Bush’s first rise to political power in the 1994 Texas governor’s race, then worked as his chief of staff, and finally became director of the Federal Emergency Management Agency, where he remained until March 2003. In 2005, KBR hired Allbaugh and his wife, Diane, on as consultants.¹⁴⁸



CONCLUSIONS & RECOMMENDATIONS

On May 18, 2005, Halliburton will hold its annual shareholders meeting in Houston, Texas. Last year, the shareholders meeting saw more protesters than shareholder participants. Hundreds of corporate accountability and anti-war profiteering advocates chanted and marched outside the meeting, demanding that Halliburton be investigated and prosecuted for cheating U.S. taxpayers and Iraqis alike. Six people were arrested.

This year, there is even more to protest. Halliburton's track record is consistently appalling—from the company's unwillingness to prevent bribery, fraud, and corruption within its workforce, to its inability to take proper precautions to protect its employees from harm's way. In the United States, Halliburton is working to undermine regulations that protect drinking water; elsewhere in the world, it is side-stepping fed-

eral laws meant to prohibit them from doing business with corrupt and brutal regimes around the world.

But because Halliburton's agenda is so melded with the agenda of the Bush administration, issues raised by auditors, inspectors-general, and other independent actors languish silently in Congress and the White House. In the first part of 2005, the U.S. Congress preferred to exhaustively probe the United Nations ' Oil-For-Food program, than delve into the Halliburton's war profiteering as unearthed by Congressman Waxman and Pentagon auditors.

Rather than awarding Halliburton for its unethical (and possibly illegal!) behavior, U.S. policy makers should hold the company accountable for its past and current practices.

RECOMMENDATIONS FOR HALLIBURTON

- **Bring your employees home from Iraq.** Halliburton's presence in Iraq is angering qualified Iraqis—who are being denied contracts to do the work themselves—and endangering Halliburton's own employees. It's also clear—from the confirmed case of bribery to the allegations of overcharging—that Halliburton is unable to properly oversee its work in Iraq. It's time to bring the company home.
- **End the veil of secrecy.** Release the details of all the Iraq contracts (and the bidding process by which they were awarded) to the public. Americans deserve to know how our tax dollars are being spent. And certainly we want our legislators, who are charged with oversight of public contracts, to have access to these records.
- **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, but also profits from the suffering of people in those countries. Being a patriotic company means supporting human rights. Halliburton should end its business dealings with Iran, Libya, and other countries that violate the human rights of their citizens.
- **Be a good corporate citizen—pay your taxes.** Doing business in the United States means paying taxes to support the infrastructure that makes it possible for U.S. businesses to operate. Halliburton must stop using overseas subsidiaries to dodge its U.S. tax obligations.
- **End payments to Vice President Dick Cheney.** It is an unbelievable conflict of interest for Halliburton, the number one beneficiary of Iraq "reconstruction" contracts, to have paid Vice President Dick Cheney almost \$195,000 last year.¹⁵⁰ Cheney pushed for and promotes the very war from which Halliburton is profiting. At the very least, Halliburton shareholders should demand a halt to payment of Cheney's deferred compensation until all federal investigations con-

cerning accounting fraud and bribery that occurred during his tenure as chief executive officer are resolved.

- **Respect your workers.** Pay your workers a fair wage, provide decent working conditions especially in war situations, and allow your workers to form unions as well as to access courts and dispute resolution mechanisms in the United States.

- **Do not poison our drinking water.** The public deserves to know what chemicals are being injected into or close to drinking water supplies, and concrete scientific proof that these chemicals 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's Iraq contracts.** Enough evidence has been accumulated about Halliburton's shoddy work in Iraq and possible criminal wrongdoing, such as overcharges by the company of over \$212 million, not to mention confirmed kickbacks worth more than \$6 million, to merit the cancellation of Halliburton's Iraq contracts. It's time for the U.S. government to take action to protect both Iraqis and U.S. citizens from Halliburton's unethical practices.

- **Improve 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 upon a bipartisan resolution first introduced in the Senate in 2004 by Senators Durbin (D-IL) and Craig (R-ID), which would establish a committee to provide wartime contract oversight modeled after the successful Truman Committee of World War II.

- **Ensure transparency and accountability in government contracting.** U.S. government agencies should prevent the type of cronyism that has allowed companies like Halliburton to cash in their political connections for lucrative contracts. The bidding process for U.S. government contracts in Iraq and elsewhere should be open and transparent. Companies like Halliburton that have repeatedly violated federal laws should be banned from receiving government contracts.

- **Penalize War Profiteering.** The U.S. Congress should strengthen the penalties for corporations and individuals who are 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 that are under criminal investigation for contract-related abuses should also be automatically suspended from additional federal contracts or task orders until such investigations are concluded.

- **Let Iraqis rebuild their own country and make their own decisions about the future of their economy.**

Qualified Iraqi businesses are hungry to take over the work that Halliburton has been doing insufficiently, and for a fraction of the cost. The Iraqi people deserve to be the first bidders on contracts to rebuild their country, rather than being prohibited from bidding, as is currently the case. Iraqis should also be making the decisions about who is awarded rebuilding contracts, not to mention all other decisions regarding future control of the Iraqi economy.

- **Overtake Executive Order 13303.** In May 2003, President Bush quietly passed Executive Order 13303, entitled 'Protecting the Development Fund and Certain Other Property in Which Iraq Has an Interest.' The order prohibits any lawsuits or criminal prosecution of the oil industry in Iraq, including the individuals who sell and market the oil as well as the officials who controls oil revenue, *even if the actions violate U.S. law.*¹⁵¹

- **No more corporate welfare.** The World Bank, ExIm, and other international lending institutions should stop subsidizing Halliburton's fossil fuel development projects, which have perpetuated climate change, wars, corruption, and a widening gap between rich and poor.

- **Take the money out of politics.** Attempts by companies like 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.

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<http://www.halliburtonwatch.org> and <http://www.warprofiteers.com>

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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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