

**IS WHAT'S GOOD FOR BOEING AND HALLIBURTON GOOD FOR AMERICA?  
New Data Shows How Contractors Are Cashing In On War On Terror**  
A World Policy Institute Special Report

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New York, NY, February 24th -- As a network of citizen's groups rallies today at scores of sites in the United States and around the world to denounce what organizers characterize as war profiteering by major contractors like Halliburton, Bechtel, and Lockheed Martin, the New York-based World Policy Institute is releasing a new analysis that documents a rapid increase in military contracts flowing to these firms as a result of the U.S. interventions in Iraq and Afghanistan (see Table I, below for an analysis of the Pentagon's top 10 contractors for FY 2003, the most recent year for which full statistics are available).

With the Pentagon budget at \$400 billion per year and counting, plus a new Department of Homeland Security with a \$40 billion per year budget, plus wars in Afghanistan and Iraq that have cost \$180 billion to date, these are lucrative times to be a military contractor," said Michelle Ciarrocca, a Senior Research Associate at the World Policy Institute and co-author of a new analysis on the Pentagon's top 10 contractors.

**The Pentagon's "Big Three contractors -- Lockheed Martin, Boeing, and Northrop Grumman -- alone split over \$50 billion in prime contracts among them in FY 2003, noted Ciarrocca. To put this in some perspective, Lockheed Martin's Pentagon awards, at \$21.9 billion, are greater in value than the entire budget for the federal government's largest single welfare program -- Temporary Assistance for Needy Families (TANF) -- which is meant to keep several million single parents and dependent children out of poverty,"** Ciarrocca noted.

**The Halliburton Factor: Iraq Rebuilding Contracts Fuel Revenue Growth**

"The greatest beneficiary thus far from the Bush administration's 'war without end' approach to fighting terrorism has been Vice President Cheney's former company, **Halliburton**, notes, William D. Hartung, the co-author of the Institute's new analysis and the author of a new book on war profiteering in the Bush era entitled [How Much Are You Making on the War, Daddy?: A Quick and Dirty Guide to War Profiteering in the Bush Administration](#) (Nation Books/Avalon Group, 2004). **Halliburton's prime contracts with the Pentagon jumped from \$483 million in Fiscal Year 2002 to \$3.9 billion in Fiscal year 2003, and increase of almost 700%.**

The vast bulk of the \$3.9 billion **Halliburton** received from the Pentagon in FY 2003 went for the company's work in and around Iraq and Afghanistan, including everything from building military bases, to providing meals, to doing the laundry, to maintaining military vehicles, to rebuilding Iraq's oil infrastructure. The \$3.9 billion the company earned in 2003 doesn't include billions in new contracts that have been issued since that time for rebuilding oil infrastructure in southern Iraq or for work in other parts of the world. **Halliburton** has also built bases in Uzbekistan and prison camps in Guantanamo Bay, Cuba. "Anywhere you go where the U.S. Army has to deploy on short notice, **Halliburton** is there, working on a cost-plus contract," notes Frida Berrigan, Deputy Director of the Institute's Arms Project and a co-author of the new analysis. "The billions they have earned thus far are just the tip of the iceberg."

"The question now is whether the Pentagon and the Bush administration are willing and able to hold **Halliburton** accountable for the vast sums of taxpayer money that they have been entrusted with," notes Berrigan. The company's Iraq contracts have drawn fire on several fronts, from \$1 per gallon overcharges for gasoline brought over the border from Kuwait; to \$6.3 million in kickbacks on another Kuwaiti contract; to charging for three times as many meals as were actually served at a major army facility in Kuwait; to wasting millions on monogrammed towels and overpriced vehicle leases in one of its Kuwaiti purchasing offices. As former **Halliburton** purchasing officer Henry Bunting put it recently, the company's motto for its work in Iraq appears to be "don't worry about it, it's cost-plus."

"The question for the Pentagon, the White House, and the Congress is, Are they going to hold **Halliburton** accountable for the work they are doing in Iraq, or are they going to continue to let them take U.S. taxpayers for a ride, even as they provide shoddy support services to our troops in the field?," asked the Institute's Director, William D. Hartung. "As the government watchdog group Taxpayers for Common Sense has suggested, we need a concerted effort, comparable to the Truman Commission on war profiteering that operated during World War II, to hold firms like **Halliburton** accountable. Otherwise, they will continue to overcharge and under-perform. And when they get caught, they'll just fold the costs of any fines into their next cost-plus contract, with little real impact on their bottom line."

(For more on Halliburton, see testimonies by William D. Hartung, Henry Bunting, and Stephen of Taxpayers of Common Sense from the recent [Senate Democratic Policy Committee Hearing on Iraqi Contracting](#)).

Halliburton is the best-known beneficiary of Iraq rebuilding work among the Pentagon's top contractors, but it isn't the only one. **The Pentagon's number ten contractor for FY 2003, Computer Sciences Corporation, more than tripled its prime contracts from FY 2002 to FY 2003, from roughly \$800 million to \$2.5 billion.** This brought the company from 21st on the Pentagon's list in 2002 to 10th in 2003. The bulk of **CSC's** growth comes from its acquisition of **Dyncorps**, a private military company which is engaged in everything from reforming the Iraqi justice system to providing private security to Afghan president Hamid Karzai to combating narco-traffickers and guerrillas in Colombia under contract to the U.S. government. **Another fast-growing contractor in FY 2003 was the SAIC Corporation, which saw its contracts increase from \$2.1 billion in FY 2002 to \$2.6 billion in FY 2003.** **SAIC** does everything from intelligence gathering to missile defense studies to Iraqi rebuilding-related work for the Pentagon. In fact, the company served as the location for a group of 150 pre-selected Iraqi exiles that the Pentagon had decided it wanted to "drop in" to key Iraqi ministries after the invasion and occupation of Iraq. A Pentagon spokesperson explained that it was better to have them working out of SAIC's offices prior to the U.S. intervention because it would be awkward if they had Pentagon phone numbers.

### **Lockheed Martin and Northrop Grumman: The Biggest Gainers**

While companies like **Halliburton** and **Computer Sciences Corporation** experienced the fastest growth in contracts during 2003 due to their involvement in Iraq and other outposts of the Bush administration's war on terrorism, old standby **Lockheed Martin experienced the greatest absolute increase, going from \$17 billion to \$21.9 billion in contracts between FY 2002 and FY 2003.** To put this in some perspective, **Lockheed Martin's increase in contracts for 2003 was greater than Halliburton's total Pentagon contract figure for the year.** **Lockheed Martin** is present in most major lines of Pentagon business, from the Paveway GBU-12 and 16 laser-guided bomb kits that were used in Iraq and Afghanistan; to the F-22 and F-35 fighter planes (\$4.7 and \$4.5 billion, respectively, in the FY 2005 budget);

to the radar for the Aegis Destroyer; to multiple aspects of the administration's missile defense program, which is pegged at 10.2 billion in the FY 2005 budget.

**Northrop Grumman** is the "new kid on the block" among the defense-industrial conglomerates. After almost being swallowed up by **Lockheed Martin** in the late 1990s, it bounced back with its own buying binge of major military shipyards like Newport News and space/missile defense specialist **TRW**. **Northrop Grumman topped the \$10 billion barrier for the first time in FY 2003, hitting \$11.1 billion in prime contracts, up from \$8.7 billion in 2002.** From aircraft carriers and attack subs built at its Newport News, Virginia shipyards; to its major subcontracting role on the F/A-18E/F; to a major missile defense role via its acquisition of **TRW**; to its ownership of **Vinnell**, a private military firm that trains the Saudi National Guard and has a role in training the new Iraqi armed forces; to its role as prime contractor for the B-2 stealth bomber and the Global Hawk Unmanned Aerial Vehicle (UAV); to a wide array of defense electronic systems and electronic warfare contracts; **Northrop Grumman** may be positioned across a fuller spectrum of military systems than virtually any of its rivals.

### **Will Boeing Bounce Back from the Brink of Scandal?**

"The purse is now open, and any member of Congress who argues that we don't have the resources to defend America . . . won't be there after November of next year." -- then Boeing VP Harry Stonecipher quoted in Anne Marie Squeo and Andy Pasztor, "Pentagon's Budget Becomes Bulletproof," Wall Street Journal, October 15, 2001

Beset as it is by cost-overruns on its Pentagon work and charges of bribery and accounting irregularities in its other business lines, **Halliburton** has the feel of a company on the verge of an ethical nervous breakdown. But it is not alone in that regard. Consider **Boeing**, which late last year saw its CEO, Phil Condit, step down. Condit resigned in a scandal sparked by the fact that the company offered a top Air Force procurement official, Darleen Druyun, a job while she was in the midst of negotiating a major deal to lease **Boeing** 767s for use as aerial refueling tankers by the Air Force. This scandal was preceded by two others that involved civil and criminal cases over possible theft of documents in missile defense and satellite launch competitions with its arch-rival **Lockheed Martin**.

The company's ethical problems have been compounded by the dip in commercial airline orders in the wake of the September 11th attacks and this week's cancellation of the Comanche helicopter program a major Army program that **Boeing** was partnering on with the **Sikorsky** helicopter unit of **United Technologies**. The impact of the Comanche cancellation may be softened for Boeing on two scores. First, there will be hefty contract cancellation fees for the two prime contracting firms, in the range of \$2 to \$4 billion. Second, one option for "filling the gap" left by the Comanche cancellation is to ramp up production of the Apache helicopter, another **Boeing** product which is already slated to receive \$554.8 million in the FY 2005 budget.

One can hardly say that Boeing has gone unpunished for its misdeeds, but the question is whether the punishments match the crime. The company lost about \$1 billion in satellite-launch contracts in the document theft case. And it has seen the \$20-billion plus tanker lease deal, an arrangement of dubious financial and security merits which Sen. John McCain has denounced as "war profiteering," put on hold until more can be learned about insider dealing between **Boeing** and the Air Force in the forging of the deal (for more on the **Boeing** tanker deal, see Bill Hartung's recent piece from the Nation, attached). **Despite all of this, Boeing clocked in at \$17.3 billion in Pentagon prime contracts in F.Y. 2003, a \$700 million increase from F.Y. 2002 levels, and \$4 billion jump from the \$13.3 billion in contracts it received in F.Y. 2001.** Outside of the areas where it has engaged in specific, questionable

practices, like the tanker deal and satellite launches, the company seems to be moving full speed ahead. Big programs like the Army's Future Combat System (FCS, funded at \$3.2 billion in the FY 2005 budget), an information-based battlefield of the future in which **Boeing** is serving as the systems integrator, are being amply funded, as is the company's F/A-18E/F combat aircraft for the Navy (\$3.1 billion in the FY 2005 budget). **Boeing** is also a big player administration's multi-tiered missile defense program, which is being funded at \$10.2 billion in the FY 2005 budget.

**Boeing** will face serious heat on Capitol Hill over the next few weeks as hearings are held on the circumstances surrounding the tanker deal, and on the larger question of the "revolving door" of personnel going back and forth from major weapons contractors to key policymaking positions in the Pentagon. The company's new CEO Harry Stonecipher, who came back from retirement to replace Phil Condit at the helm, seems at first glance an unlikely choice to lead an ethical reform movement at Boeing. He has always been a blunt-speaking, take-no-prisoners kind of guy (see the quote at the head of this section, for example). Maybe in a "Nixon-to-China" fashion, a plain-speaking executive like Stonecipher can come to a meeting of the minds with a plain talking legislator like Sen. McCain and come up with some substantive changes that will result in real transparency and accountability over the operations of defense behemoths like Boeing. Stay tuned.

### **Who's Minding the Store?: Greater Accountability Needed**

**The Pentagon awarded \$209 billion in prime contracts in FY 2003, a massive sum by any standards.** We need to make sure that every dime of that money goes to provide for security, not waste or excess profits. From the war profiteering that occurred during World War II to \$600 hammers that we were gouged for during the Reagan buildup, history tells us that when military spending is on the rise, opportunities for waste, fraud and abuse increase as well. This time around, the tradeoffs are stark. Do we want monogrammed towels for the Kellogg, Brown, and Root Health Club in Kuwait, or do we want to make sure that every member of our armed forces stationed in Iraq who needs body armor gets body armor? Do we want vehicles for civilian contract employees leased at \$7,500 a month, or do we want to be able to buy the kits that are needed to "up armor" military Humvees so they are less vulnerable to gun-fire and explosives?

Companies like **Boeing**, **Halliburton**, and **Lockheed Martin** aren't going to go away. They employ a lot of talented people, and they have produced a lot of quality goods and services over time for our armed forces. We need to get past the idea that a company like Boeing or Halliburton is too big to punish because of the myriad goods and services they supply to our armed forces and get on with the serious business of finding ways to hold them accountable while continuing to benefit from their unique skills and capabilities. Just as their government counterparts do, these companies need to be held to clear, enforceable standards of conduct. If they are allowed to function in an ethical never, never land, where cost is no object and no one is monitoring the quality of the good and services they are providing, problems can multiply exponentially. And fairly quickly, we'll find that we are risking a lot more than money. We'll be risking the security of our troops in the field, and our citizens here at home. As President Eisenhower put it in his farewell address to the nation over four decades ago, the only guarantee that we have that our military-industrial complex will meet the needs of our democracy is the vigilance provided by "an alert and knowledgeable citizenry." It's time that we all started paying closer attention to how the hundreds of billions of dollars being spent in our name, for purposes of defense, are actually being used.

**[Table I: Pentagon's Top Ten Contractors, FY 2003](#)**

**Resources for More Information**

**Center on Corporate Policy** --Working to curb corporate abuses and make corporations publicly accountable

**Common Cause** -- Holding power accountable

**CorpWatch** -- Holding corporations accountable

**Foreign Policy in Focus** -- A thinktank without walls

**Institute for Southern Studies** -- Combining information power with people power, another South is possible!

**Occupation Watch** -- Exposing the impact of the military and economic occupation of Iraq

**Project on Government Oversight** -- Exposing corruption, exploring solutions

**Taxpayers for Common Sense** -- An independent watchdog for the taxpayers of today and tomorrow

**Making Money on Terrorism**, *The Nation*, by William D. Hartung, February 23, 2004

**Order Bill Hartung's new book, *HOW MUCH ARE YOU MAKING ON THE WAR, DADDY? A Quick and Dirty Guide To War Profiteering in the Bush Administration***