

# Ice Cream

**How military contractors reap billions from US military bases overseas**

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‘You whored it out to a contractor,’ Major Tim Elliott said bluntly. It was April 2012, and I was at a swank hotel in downtown London attending ‘Forward Operating Bases 2012’, a conference for contractors building, supplying, and maintaining military bases around the world. IPQC, the private company running the conference, promised the conference would ‘bring together buyers and suppliers in one location’ and ‘be an excellent platform to initiate new business relationships’ through ‘face-to-face contact that overcrowded trade shows cannot deliver.’<sup>1</sup> Companies sending representatives included major contractors like General Dynamics and the food services company Supreme Group, which has won billions in Afghan war contracts, as well as smaller companies like QinetiQ, which produces acoustic sensors and other monitoring devices used on bases. ‘We’re profiteers,’ one contractor representative said to the audience in passing, with only a touch of irony.

Other than the corporate representatives and a couple of journalists, a few officers from NATO member militaries were on hand to speak. Major Elliott of the Royal Scots Brigades had offered his stark assessment while explaining how to build a military base that allows a base commander to ‘forget the base itself’ – that is, the work of running the base – and instead maximise his effectiveness outside the base.<sup>2</sup>

Of course, Elliott said, in wartime you won’t get contractors to run a base without ‘a shitload of money’. At times, he said, this has meant vast amounts of ‘time, effort, and resources’ are going ‘just to keep a base running’. In Afghanistan, Elliott said he

saw situations so bad that on one base there were private security guards protecting privately contracted cooks who were cooking for the same private security guards ... who were protecting the privately contracted cooks ... who were cooking for the private security guards ... who were protecting the privately contracted cooks, and on it went.

By the end of 2014 in Afghanistan, the US military will have closed, deconstructed, or vacated most of what were once around 800 military installations, ranging from small checkpoints to larger combat outposts to city-sized bases.<sup>3</sup> Previously, the military vacated 505 bases it built or occupied in Iraq.<sup>4</sup>

Despite the closure of these 1,000-plus installations, the US military will still occupy around 800 military bases outside the fifty states and Washington DC.<sup>5</sup> In addition to more than 4,000 domestic bases, this collection of extraterritorial bases is undoubtedly the largest in world history.<sup>6</sup>

US bases overseas have become a major mechanism of US global power in the post-Second World War era. Alongside postwar economic and political tools like the International Monetary Fund, the World Bank, and the United Nations, the collection of extraterritorial bases – like colonies for the European empires before it – became a major mechanism for ‘maintaining [US] political and economic hegemony,’ advancing corporate economic and political interests, protecting trade routes, and allowing control and influence over territory vastly disproportionate to the land bases actually occupy.<sup>7</sup> Without a collection of colonies, the United States has used its bases, as well as periodic displays of military might, to keep wayward nations within the rules of an economic and political system favourable to itself.<sup>8</sup>

Building and maintaining this global base presence has cost US taxpayers billions of dollars. While the military once built and maintained its forts, bases, and naval stations, since the US war in Vietnam, private military contractors have increasingly constructed and run this global collection of bases, foreshadowing and helping to fuel broader government privatization efforts. During this unprecedented period, major corporations – US and foreign – have increasingly benefited from the taxpayer dollars that have gone to base contracting.

After an extensive examination of government spending data and contracts (as part of a larger five-year investigation of US bases abroad), my calculations show the Pentagon has dispersed around \$385 billion in taxpayer-funded contracts to private companies for work outside the United States, mainly on bases, between the onset of the war in

Afghanistan in late 2001 and 2013 alone. The total is nearly double the entire State Department budget over the same period (and, of course, these overseas contracts represent only a portion of the total Pentagon budget, which totalled trillions over this period). While some of the contract moneys are for things like weapons procurement and training, rather than for bases and troop support, the thousands of contracts believed to be omitted from these tallies thanks to government accounting errors make the numbers a reasonable reflection of the everyday moneys flowing to private contractors to support the country's global base collection. Because of the secrecy surrounding military budgets as well as the Pentagon's poor accounting practices, the true total may be significantly higher.

Almost a third of the total – more than \$115 billion – was concentrated among the top ten corporate recipients alone. Many of the names scoring the biggest profits are familiar: former Halliburton subsidiary Kellogg Brown & Root, private security company DynCorp, BP. Others are less well known: Agility, Fluor, Bahrain Petroleum Company. The complete list includes major transnational construction firms, large food service providers, the world's biggest oil companies, and thousands upon thousands of smaller companies receiving government contracts.

Others have also benefited – financially, politically, and professionally – from the huge collection of bases overseas. High-ranking officials in the military and the Pentagon bureaucracy, members of Congress (especially members of the armed services and appropriations committees), lobbyists, and local and national-level politicians in countries accommodating bases have all reaped rewards.

My investigation into base contracting abroad also reveals that base spending has been marked by spiralling expenditures, the growing use of uncompetitive contracts (and contracts lacking incentives to control costs), and outright fraud – in addition to the repeated awarding of non-competitive contracts to companies with histories of fraud and abuse. Financial irregularities have been so common that any attempt to document the misappropriation of taxpayer funds at bases globally would be a mammoth effort. In the Afghanistan and Iraq wars alone, the Commission on Wartime Contracting (which Congress established to investigate waste and abuse) has estimated that there has been \$31–\$60 billion in contracting fraud during the wars, with most of it involving bases in and around Afghanistan and Iraq.<sup>9</sup> In Singapore, at least four Navy officials have recently been charged with receiving bribes in the form of cash, gifts, and sexual services in exchange for providing a contractor with inside information and helping to inflate the company's billing. Globally,

billions of dollars are likely wasted or misused every year.

Proponents of outsourcing the work of building, running, and supplying bases overseas argue that contractors save government and taxpayer money while allowing the military, as Major Elliott suggested, to focus on its combat duties. Research suggests that this is often not the case. Contractors tend to provide base (and other) services at higher costs than the military itself.<sup>10</sup> While contracting overseas has helped build and maintain a global network of bases that has supported the US government's geopolitical and geoeconomic aims – and US corporate interests – worldwide, foreign bases have become an important source of profit-making in their own right that have diverted hundreds of billions of taxpayer dollars from pressing domestic needs.

### **The Base World**

Although some of the bases in the base world, like the naval station at Guantánamo Bay, Cuba, date to the late nineteenth century, most were built or occupied during the Second World War. (It is important to remember, however, that most of today's domestic bases, from the continental United States to Hawai'i and Alaska, occupy land that was once 'abroad'.) President Franklin D. Roosevelt acquired many of today's overseas bases in his 'destroyers for bases' deal with Britain. Acquisitions accelerated and continued through to the end of the war. By 1945, the United States occupied more than 30,000 installations at more than 2,000 base sites globally.<sup>11</sup>

While the number of US bases overseas fluctuated during the Cold War and declined by around 60 per cent after the Cold War's end, seventy years after the Second World War and more than sixty years after the Korean War, there are still 179 US base sites in Germany, 109 in Japan, and 83 in South Korea – among scores more dotting the planet in places like Aruba and Australia, Bahrain and Bulgaria, Colombia, Kenya, Qatar, and Yemen, just to name a few.<sup>12</sup> The bases range in size from small radar installations to massive air bases. While the Pentagon considers most of its overseas base sites 'small installations or locations', it defines 'small' as having a reported value of up to \$800 million.<sup>13</sup> At the height of the wars in Iraq and Afghanistan, the total number of bases outside the fifty states and Washington DC probably numbered around 2,000. Today, the total remains around 800 (although the Pentagon does not even have an accurate count).

And the US military presence abroad is actually even larger. There are the Navy's eleven aircraft carriers – a kind of floating base, or as the Navy tellingly refers to them, 'four and a half acres of sovereign US territory'.<sup>14</sup>

There is also a significant, and growing, military presence in space, with space bases and weapons in development featuring names like ‘Rods from God’.

Globally, the Pentagon occupies more than 28 million acres (97 per cent domestically), which is about the size the State of New York and bigger than all of North Korea. The military’s buildings alone cover 2.2 billion square feet of space – almost three times that of Wal-Mart. McDonald’s, too, pales in comparison with some 35,000 stores compared to the Pentagon’s 291,000 buildings.<sup>15</sup> A more apt comparison is the total number of US embassies and consulates abroad. As a physical manifestation of the country’s diplomatic tools, the 278 embassies and consulates worldwide represent about one-third the total number of bases and occupy far less territory. By my very conservative calculations, total expenditures to maintain bases and troops overseas probably reached \$175 billion in fiscal year 2012.<sup>16</sup>

### **Peeling the potatoes and bringing home the bacon**

Once upon a time, the military, not contractors, built and ran US bases. Soldiers, sailors, marines, airmen, and airwomen built the barracks, cleaned the clothes, and peeled the potatoes. This started changing during the Vietnam War, when Brown & Root began building major military installations in South Vietnam as part of a contractor consortium.<sup>17</sup> The company, which later became known as KBR, enjoyed deep ties with President Lyndon Johnson dating to the 1930s, leading to well-founded suspicions that Johnson steered contracts to Brown & Root.<sup>18</sup>

The use of contractors grew as the war in Vietnam continued. Amid nationwide resistance to the draft, contractors were one way to solve a labour problem that became permanent with the end of conscription in 1973. Militaries always need bodies to have a fighting force. In the era of the ‘all-volunteer force’, hiring contractors reduced the need to recruit new service members. In practice, the government passed the labour problem to contractors, who have generally searched the globe for the cheapest possible workers. Frequently, they have been Filipinos and other often formerly colonised non-US citizens willing to work for much less than uniformed troops. Additionally, the government and contractors often avoid paying for the health care, retirement, and other benefits provided to US troops.

A broader rise in the privatisation of formerly government services only accelerated the trend in the military. Without forced conscription, the military was also under pressure to retain troops once they joined. Keeping

troops and their families happy with an increasingly diverse array of comforts played an important part in retaining the military's labour force. Especially at bases abroad, military leaders sought to mitigate the challenges of overseas tours with a generally cushier lifestyle than troops could afford at home. With time, troops, families, and, importantly, politicians came to expect elevated and ever-rising living standards not just at peacetime bases, but in war zones as well. To deliver this lifestyle, the military would pay contractors with increasing generosity.

By the first Gulf War in 1991, one out of every hundred deployed personnel was a contractor. During military operations later in the 1990s in Somalia, Rwanda, Haiti, Saudi Arabia, Kuwait, and especially the Balkans, Brown & Root received more than \$2 billion in base-support and logistics contracts for construction and maintenance, food services, waste removal, water production, transportation services, and much more.<sup>19</sup> In the Balkans alone, Brown & Root built 34 bases. The largest, Camp Bondsteel in Kosovo, covered 955 acres and included two gyms and other sports facilities, extensive dining and entertainment facilities, two movie theatres, coffee bars, and a post exchange ('PX') for shopping. Describing off-duty soldiers, a US Army representative told *USA Today*, 'We need to get these guys pumping iron and licking ice cream cones, whatever they want to do'. By contrast, military personnel from other NATO countries lived in existing apartments and factories.<sup>20</sup>

By the second Gulf War, contractors represented roughly half of all deployed personnel in Iraq. The company now known as KBR employed more than 50,000 people in the warzone. That is the equivalent of five divisions or one hundred army battalions.<sup>21</sup> City-sized bases became known for their Burger Kings, Starbucks, and car dealerships, their air conditioning, ice cream, and steak.<sup>22</sup> Although recent fiscal constraints have meant some increase in periodic kitchen ('KP') duty, for most in the military, the days of peeling potatoes are long gone.

### **Contracts, contracts, contracts**

Figuring out who has been winning all the contracts for the increasingly comfortable military lifestyle was not easy. Between the secrecy surrounding military contracting and the profoundly unreliable nature of Pentagon accounting, it is difficult to determine who has been benefiting from the growth in base contracting. Because the government does not compile many aggregated lists of contract winners, I had to pick through hundreds of thousands of government contracts from publicly available data and research scores of companies worldwide. I used the same

methodology for tracking funds as the Commission on Wartime Contracting, which Congress established to investigate waste and abuse in Afghanistan and Iraq.<sup>23</sup> This allowed me to compile a list of every Pentagon contract with a ‘place of performance’ – that is, the country where most of a contract’s work is performed – outside the United States between the start of the Afghan war in October 2001 (fiscal year 2002) and May 2013.

There were 1.7 million contracts.

Scrolling through 1.7 million spreadsheet rows (more than can fit into a single Microsoft Excel file) offered a dizzying feel for the immensity of the Pentagon’s activities and the money spent globally. Generally, the companies winning the largest contracts have been providing one (or more) of five things: Construction, Operations and Maintenance, Food, Fuel, and Security.

But among the 1.7 million contracts, the breadth was remarkable. There was one for \$43 for sand in South Korea and another for a \$1.7 million fitness centre in Honduras. There was the \$23,000 for sports drinks in Kuwait, \$53 million in base support services in Afghanistan, and everything from \$73 in pens to \$301 million for army industrial supplies in Iraq.

Cheek by jowl, I found the most basic services, the most banal purchases, and the most ominous acquisitions, including concrete sidewalks, a traffic light system, diesel fuel, insect fogger, shower heads, black toner, a 59" desk, unskilled labourers, chaplain supplies, linen for ‘distinguished visitor’ rooms, easy chairs, gym equipment, flamenco dancers, the rental of six sedans, phone cards, a 50" plasma screen, billiards cues, XBox 360 games and accessories, Slushie machine parts, a hot dog roller, scallops, shrimp, strawberries, asparagus, and toaster pastries, as well as hazardous waste services, a burn pit, ammo and clips, bomb disposal services, blackout goggles for detainees, and confinement buildings.

Not surprisingly, given the recent wars and the huge number of bases that have enabled and supported the wars and occupations, contractors have won the most taxpayer dollars in Afghanistan and Iraq. With more than 1,300 installations between the two countries, corporations received around \$160 billion in contracts between 2001 and 2013. In Kuwait, where hundreds of thousands of troops deployed to Iraq, corporations enjoyed \$37.2 billion in contracts. The next four countries where military contractors have received the largest contracts are those that have generally hosted the largest number of bases and the largest number of



troops since the Second World War: Germany (\$27.8 billion in contracts), South Korea (\$18.2 billion), Japan (\$15.2 billion), and Britain (\$14.7 billion).

### **Top Ten Countries by Pentagon Spending, Funds Fiscal Year 2002-April 2013**

Country	Total (billions)
1. Iraq	89.1
2. Afghanistan	69.8
3. Kuwait	37.2
4. Germany	27.8
5. South Korea	18.2
6. Japan	15.2
7. United Kingdom	14.7
8. United Arab Emirates	10.1
9. Bahrain	6.9
10. Italy	5.8

Source: <http://usaspending.gov>

Note: Canada and Saudi Arabia would have also made the ten, however, those contracts are for the most part unrelated to the limited US military presence in each country, and thus are excluded from this list.

The \$385 billion total is at best a rough estimate because Pentagon and government accounting practices are so poor; the federal data system has even been called ‘dysfunctional’.<sup>24</sup> The real totals are almost surely higher, especially considering the secretive nature of Pentagon budgets. Black budgets and CIA contracts for paramilitary activities alone could add tens of billions of dollars in overseas base spending.<sup>25</sup>

The unreliable and opaque nature of the data becomes clear given that the top recipient of Pentagon contracts abroad is not a company at all, but ‘miscellaneous foreign contractors’.<sup>26</sup> That is, almost 250,000 contracts totalling nearly \$50 billion, or 12 per cent of the total, have gone to recipients that the Pentagon has not identified publicly. As the Commission on Wartime Contracting explains, ‘miscellaneous foreign contractors’ is a catch-all ‘often used for the purpose of obscuring the identification of the actual contractor[s]’.<sup>27</sup>

The reliability of the data worsens when we consider the Pentagon’s inability to track its own money. Pentagon accounting has been called ‘frequently fictional’, ledgers are sometimes still handwritten, and \$1



billion can be a rounding error.<sup>28</sup> The Department of Defense remains the only federal agency unable to pass a financial audit.<sup>29</sup> Identifying the value of contracts received by specific companies is more difficult still because of complicated subcontracting arrangements, the use of foreign subsidiaries, frequent corporate name changes, and the general lack of corporate transparency.

### Top Twenty-Five Recipients of Pentagon Contracts Abroad

Contract Awardee	Total (billions)
1. Miscellaneous Foreign Contractors	47.1
2. KBR, Inc.	44.4
3. Supreme Group	9.3
4. Agility Logistics (PWC)	9.0
5. DynCorp International	8.6
6. Fluor Intercontinental	8.6
7. ITT/Exelis, Inc.	7.4
8. BP, P.L.C.	5.6
9. Bahrain Petroleum Company	5.1
10. Abu Dhabi Petroleum Company	4.5
11. SK Corporation	3.8
12. Red Star Enterprises (Mina Corporation)	3.8
13. World Fuel Services Corporation	3.8
14. Motor Oil (Hellas), Corinth Refineries S.A.	3.7
15. Combat Support Associates Ltd.	3.8
16. Refinery Associates Texas, Inc.	3.3
17. Lockheed Martin Corporation	3.2
18. Raytheon Company	3.1
19. S-Oil Corporation (Ssangyong)	3.0
20. International Oil Trading Co./Trigeant Ltd.	2.7
21. FedEx Corporation	2.2
22. Contrack International, Inc.	2.0
23. GS/LG-Caltex (Chevron Corporation)	1.9
24. Washington Group/URS Corporation	1.6
25. Tutor Perini Corporation (Perini)	1.5
<b>SUBTOTAL</b>	<b>\$201.8</b>
<b>All Other Contractors</b>	<b>\$183.4</b>
<b>TOTAL</b>	<b>\$385.2</b>

Source: <http://usaspending.gov>

Beyond the sheer volume of dollars, a troubling pattern emerges: the majority of benefits have gone to a relatively small group of private contractors. Almost a third of the \$385 billion has gone to just ten contractors. They include scandal-prone companies like KBR, the former subsidiary of former Vice President Richard Cheney's old company Halliburton, and oil giant BP. With these and other contractors, large and small, Pentagon spending in the base world has been marked by spiralling expenditures, the growing use of contracts lacking incentives to control costs, sometimes criminal behaviour, and the repeated awarding of non-competitive sweetheart contracts to companies with histories of fraud and abuse.

Putting aside the unknown 'miscellaneous foreign contractors' topping the recipients' list, it is helpful to examine the top three named recipients in some detail.

**1. KBR:** Among the companies bringing home billions, the name Kellogg, Brown & Root dominates. It has almost five times the contracts of the next company on the list and is emblematic of broader problems in the contracting system.

KBR is the latest incarnation of Brown & Root, the company that started paving roads in Texas in 1919 and grew into the largest engineering and construction firm in the United States. In 1962, Halliburton, an international oil services company, bought Brown & Root. In 1995, Richard Cheney became Halliburton's president and CEO after helping jumpstart the Pentagon's ever-greater reliance on private contractors when he was President George H.W. Bush's secretary of defense. During the five years when Cheney ran the company, KBR won \$2.3 billion in US military contracts (compared to \$1.2 billion in the previous five years).<sup>30</sup>

Later, when Cheney was vice president, Halliburton and its KBR subsidiary (formed after acquiring Kellogg Industries) won by far the largest wartime contracts in Iraq and Afghanistan. It is difficult to overstate KBR's role in the two conflicts. Without its work, there might have been no wars. In 2005, Paul Cerjan, a former Halliburton vice president, explained that KBR was supporting more than 200,000 coalition forces in Iraq, providing 'anything they need to conduct the war'. That meant 'base support services, which includes all the billeting, the feeding, water supplies, sewage – anything it would take to run a city'. It also meant Army 'logistics functions, which include transportation, movement of POL [petroleum, oil, and lubricants] supplies, gas ... spare parts, ammunition'.<sup>31</sup>

Most of KBR's contracts to support bases and troops overseas have

come under the multi-billion-dollar Logistics Civilian Augmentation Program (LOGCAP). In 2001, KBR won a one-year LOGCAP contract to provide an undefined quantity and an undefined value of ‘selected services in wartime’. The company subsequently enjoyed nearly eight years of work without facing a competitor’s bid, thanks to a series of one-year contract extensions. By July 2011, KBR had received more than \$37 billion in LOGCAP funds. KBR reflected the near tripling of Pentagon contracts issued without competitive bidding between 2001 and 2010. ‘It’s like a gigantic monopoly,’ a representative from the watchdog group Taxpayers for Common Sense said of LOGCAP.

The work KBR performed under LOGCAP also reflected the Pentagon’s frequent use of ‘cost-plus’ contracts. These reimburse a company for its expenses and then add a fee that is usually fixed contractually or determined by a performance evaluation board. The Congressional Research Service explains that because ‘increased costs mean increased fees to the contractor’, there is ‘no incentive for the contractor to limit the government’s costs’.<sup>32</sup> As one Halliburton official told a congressional committee bluntly, the company’s unofficial mantra in Iraq became, ‘Don’t worry about price. It’s ‘cost-plus.’<sup>33</sup>

In 2009, the Pentagon’s top auditor testified that KBR accounted for ‘the vast majority’ of wartime fraud.<sup>34</sup> The company has faced accusations of overcharging for everything from delivering food and fuel to providing housing for troops and base security services.<sup>35</sup> For its work at Camp Bondsteel in Kosovo, Halliburton/KBR paid \$8 million to the government in 2006 to settle lawsuits charging double billing, inflating prices, and other fraud.<sup>36</sup>

After years of bad publicity, in 2007, Halliburton spun KBR off as an independent company and moved its headquarters from Houston to Dubai. Despite KBR’s track record and a 2009 guilty plea for bribing Nigerian government officials to win gas contracts (for which its former CEO received prison time), the company has continued to receive massive government contracts. Its latest LOGCAP contract, awarded in 2008, could be worth up to \$50 billion through to 2018. In early 2014, the Justice Department sued KBR and two subcontractors for exchanging kickbacks and filing false reimbursement claims for costs ‘that allegedly were inflated, excessive or for goods and services that were grossly deficient or not provided’. The suit also charged KBR with transporting ice for troops’ consumption in unsanitised trailers previously used as temporary morgues.<sup>37</sup>

**2. Supreme Group:** Next on the list is the company that has been

described as the ‘KBR for the Afghan War’. Supreme Group has won more than \$9 billion in contracts for transporting and serving meals to troops in Afghanistan and at other bases worldwide. Another nearly \$1.4 billion in fuel transportation contracts takes Supreme’s total over \$10 billion. The company’s growth perfectly symbolises the soldiers-to-contractors shift in who peels the potatoes.<sup>38</sup>

Supreme was founded in 1957 by an Army veteran, Alfred Ornstein, who saw an opportunity to provide food for the hundreds of growing US bases in Germany. After expanding over several decades into the Middle East, Africa, and the Balkans, the company won multi-billion-dollar ‘sole source contracts’ that gave it a virtual monopoly over wartime food services in Afghanistan. In the decade since the start of the war in 2001, the company’s revenues grew more than fifty-fold to \$5.5 billion. Its profit margins between 2008 and 2011 ranged between 18 and 23 percent. Wartime contracts account for 90 per cent of revenues for the company, now based in Dubai (like KBR). They have made its majority owner, the founder’s son, Stephen Ornstein, a billionaire.

Supreme’s chief commercial officer, former Lieutenant General Robert Dail, provides a prime example of the revolving door between the Pentagon and its contractors. From August 2006 to November 2008, Dail headed the Pentagon’s Defense Logistics Agency. The DLA awards the Pentagon’s food contracts. In 2007, Dail presented Supreme with DLA’s ‘New Contractor of the Year Award’. Four months after leaving the Pentagon, he became the president of Supreme Group USA.

The Pentagon now says Supreme overbilled the military by \$757 million. Others have started to scrutinise how the company won competition-free contracts and charged service fees as high as 75 per cent of costs. Supreme denies overcharging and claims the government owes it \$1.8 billion. In 2013, Supreme unsuccessfully sued the Pentagon for awarding a new \$10 billion Afghanistan food contract to a competitor that underbid Supreme’s offer by \$1.4 billion.<sup>39</sup>

**3. Agility Logistics:** After Supreme is Agility Logistics, a Kuwaiti company (formerly known as Public Warehousing Company KSC and PWC Logistics). It won multi-billion-dollar contracts to transport food to troops in Iraq. When the Pentagon decided against awarding similar contracts in Afghanistan to a single firm, Agility partnered with Supreme in exchange for a 3.5 per cent fee on revenues. Like Supreme, Agility hired a former high-ranking DLA official, Major General Dan Mongeon, as President of Defense & Government Services, US<sup>40</sup>. Mongeon joined the company just months after it won its second multi-billion dollar contract from DLA.

In 2009 and 2010, grand juries criminally indicted Agility for \$6 billion in false claims and price manipulation.<sup>41</sup> In 2011, a grand jury subpoenaed Mongeon as part of investigations into new charges against Agility.<sup>42</sup> With the litigation ongoing, the Pentagon suspended the company and 125 related companies from receiving new contracts. Agility has filed a \$225 million suit against the DLA for breach of contract. Strangely, the Army and the DLA have continued to do business with Agility, extending contracts with more than seven separate ‘compelling reason’ determinations.<sup>43</sup>

The rest of the top ten: a pattern of misconduct.

Things do not get much better farther down the list. Next come DynCorp International and Fluor Intercontinental. The two, along with KBR, won the latest LOGCAP contracts. Awarding that contract to three companies rather than one was intended to increase competition. In practice, according to the Commission on Wartime Contracting, each corporation has enjoyed a ‘mini-monopoly’ over logistics services in Afghanistan and other locations. DynCorp, which has also won large wartime private security contracts, has a history littered with charges of overbilling, shoddy construction, smuggling labourers onto bases, as well as sexual harassment and sex trafficking.

Although a Fluor employee pleaded guilty in 2012 to conspiring to steal and sell military equipment in Iraq, it is the only defence firm in the world to receive an ‘A’ on Transparency International’s anti-corruption index that rates companies’ efforts to fight corruption. On the other hand, number seven on the list, ITT (now Exelis), received a ‘C’ (along with KBR and DynCorp).<sup>44</sup>

The last three in the top ten are BP (which tops the Project on Government Oversight’s federal contractor misconduct list) and the petroleum companies of Bahrain and the United Arab Emirates.<sup>45</sup> The military and its bases run on oil. The military consumed five billion gallons in fiscal year 2011 alone – more than all of Sweden.<sup>46</sup> In total, ten of the top twenty-five firms are oil companies, with contracts for delivering oil overseas totalling around \$40 billion.

The Pentagon and the US government generally justify the use of so many contractors based on their supposed efficiency and saving taxpayer money. On average, this appears not to be the case. Research shows that contractors cost two to three times as much as a Pentagon civilian doing the same work. More than half of Army contracts go to administrative overhead rather than contract services.<sup>47</sup> Military comptrollers acknowledge that when it comes to the use of contractors, ‘growth has

been unchallenged'. 'The savings are here,' the comptrollers conclude.<sup>48</sup>

### **'Ice Cream'**

At the Forward Operating Bases 2012 conference in London, the speakers included members of several NATO militaries. They were a reminder that while US companies working on US bases dominate the industry, private contractors increasingly build, run, and supply bases for the militaries of many nations, as well as for international peacekeepers and oil companies whose extraction facilities often look like military bases. Among the speakers was US Marine Corps Major Patrick Reynolds. With the help of a Marine Corps video, Reynolds talked about 'EXFOB' the Marines' experimental, energy-saving forward operating base (according to the video, EXFOB aims to help 'change the way we think about energy to maintain our lethality'). Referring to his audience, he said it is great that the 'beltway bandits' are on board with this new emphasis on energy efficiency. Reynolds ended his presentation by alerting the contractors to a list of upcoming contract opportunities. 'RFP to be posted on FEDBIZOPPS soon!' read one of his powerpoint slides (referring to the website advertising government procurement opportunities). Suddenly there was a noticeable surge in energy in the room. People sat up in their chairs, and for the first time during his presentation, many in the audience began taking notes on mostly blank notepads. 'I know you guys from the industry pay a lot to be here,' Reynolds said, so he thought it right to offer 'food for thought [to] give you something to walk away with'.

Just as tellingly as what appeared to be advance notice on government contract solicitations, Reynolds explained to the group how bases tend to expand exponentially over time. 'You start out small' with an outpost, he said, 'thinking you'll only be there for a week ... And then it's two weeks. And then it's a month. And then it's two months.' In the process, bases add facilities, food, and recreational amenities, like steak and lobster, flat screen TVs, and Internet connections. The major said he and others in the military refer to these comforts collectively as 'ice cream'. 'There's no "ice cream" out here' at a small outpost, he told the audience. 'But eventually you'll get to the point where it's out here' at a patrol base and not just as it is now at headquarters and FOBs. 'It's a building block process.' The process Major Reynolds described is precisely what happened on bases in and around Afghanistan and Iraq. According to a Congressional Research Service report, the Pentagon 'built up a far more extensive infrastructure than anticipated to support troops and equipment'. Funds for the operation and maintenance of bases (including food and

amenities) grew three times as fast as the number of deployed troops would suggest.<sup>49</sup>

During a Q&A session, a Supreme Group representative asked Reynolds if the Marines were thinking about reducing the ‘ice cream’, the TVs, and the other amenities. I’d love to do that, the major replied. Is it going to happen? ‘Sort of, kind of, not really.’ ‘Do we need ice cream? Do we need cable TVs? Do we need high speed internet and all the crap? No,’ said Reynolds. ‘But we have’ Senators and Congressmen coming out and ‘visiting their constituents and they want to help’. And then he paused before continuing, ‘That’s probably all I’ll say on that.’

Major Reynolds politely pointed to some of the political players shaping the base world. They are just some of those who, in addition to the contractors, have benefited from the collection of bases abroad. For example, in Afghanistan and Iraq, Congress members have used base amenities as a public way to demonstrate their patriotism and support for the troops. One former soldier told me his reaction to arriving at Iraq’s Camp Liberty was, ‘This is awesome!’ Like thousands of others, he found comfortable rooms, beds, and amenities that eventually included unrestricted Internet access (thanks to a favour from a KBR contractor). ‘It was really plush,’ he said. ‘It was dope.’ Later, he admitted, ‘I felt ashamed it wasn’t harder’.

The perks of overseas base life are far greater for the generals and the admirals who often enjoy personal assistants and chefs, private planes and vehicles, and other benefits. Beyond the authorized perks, there are cases like former Africa Command commander General William ‘Kip’ Ward. Pentagon investigators found Ward ‘engaged in multiple forms of misconduct’ including billing the government for hundreds of thousands of dollars of personal travel and misusing government funds on luxury hotels, five-car motorcades, and spa and shopping trips for his wife.<sup>50</sup> He also accepted free meals and tickets to a Broadway musical from an unnamed ‘construction management, engineering, technology and energy services company’ with millions in Pentagon contracts.<sup>51</sup>

### **Election Donations**

In addition to illegal efforts to influence base contracting, contractors have made millions in campaign contributions to Congress members. According to the Center for Responsive Politics, individuals and PACs linked to military contractors gave more than \$27 million in election donations in 2012 alone and have donated almost \$200 million since 1990.<sup>52</sup> Most of these have gone to members of the armed services and appropriations



committees in the Senate and House of Representatives. These committees have most of the authority over awarding military dollars. For the 2012 elections, for example, Virginia-based DynCorp's political action committee donated \$10,000 to both the chair and ranking member of the House Armed Services Committee, and made additional donations to thirty-three other members of the House and Senate armed services committees and sixteen members of the two appropriations committees.<sup>53</sup>

Contractors also pay lobbyists millions more to sway military budgeteers and policymakers. In 2001 alone, ten leading military contractors spent more than \$32 million on lobbying.<sup>54</sup> KBR and Halliburton spent nearly \$5.5 million on lobbying between 2002 and 2012.<sup>55</sup> This included \$420,000 in 2008 when KBR won the latest LOGCAP contract, and \$620,000 the following year when it protested being barred from bidding on contracts in Kuwait.<sup>56</sup> Supreme spent \$660,000 on lobbying in 2012 alone.<sup>57</sup> Agility spent \$200,000 in 2011, after its second indictment on fraud charges.<sup>58</sup> Fluor racked up nearly \$9.5 million in lobbying fees from 2002 to 2012.<sup>59</sup>

Even the German state of Rheinland-Pfalz lobbies the US government to keep bases in its state. Rheinland-Pfalz (also called Rhineland-Palatinate) has been home to more US troops and bases than any other. Since 2007, the state made 258 documented contacts with US government officials. Many of the contacts were with staffers, but others were with powerful Congress members with influence over bases and military policy, including Senators John Warner, Lindsey Graham, James Inhofe, and Representative Solomon Ortiz. Other meetings were with high-ranking Pentagon officials and an assistant secretary of the Army. During this period, Rheinland-Pfalz paid the high-profile Washington DC lobbying firm DLA Piper at least \$772,000 to lobby on its behalf.<sup>60</sup> In neighbouring Baden-Württemberg, the German city of Heidelberg enlisted another prominent lobbyist, Patton Boggs, to help keep the Army in its city.<sup>61</sup> One sees how politicians in many countries, along with contractors, trade associations, lobbyists, Pentagon officials, military personnel, veterans, and others are deeply invested in maintaining the base status quo.

### **Avoiding Taxes**

While contractors have enjoyed billions in taxpayer funds, many have sought to minimise US taxes paid on those profits by both legal and illegal means. Across the entire aerospace and military industry, the effective tax rate was 10.6 per cent as of 2010 (compared to the top federal statutory corporate tax rate of 35 per cent and an average effective tax rate for large

profitable US companies of 12.6 per cent).<sup>62</sup> In 2004, the Government Accountability Office found that 27,100 Pentagon contractors (about one in nine) were illegally evading taxes while still receiving money from government contracts. Privacy rules prevented the government from naming names, but in one case a contractor providing base services owed almost \$10 million in taxes while still receiving \$3.5 million from the Pentagon. The government estimated the total taxes owed at \$3 billion.<sup>63</sup>

In recent years, major military contractors have also increasingly created foreign-chartered subsidiaries to lower their taxes legally. At bases overseas, foreign companies frequently receive a significant proportion of base contracts, meaning these contractors pay little if any US taxes at all. Some US companies have taken advantage of this situation by creating foreign subsidiaries to do much of the work on base contracts abroad. KBR, for example, has avoided paying taxes on contracts in Iraq by using shell companies in the Cayman Islands that exist only as a name in a computer file. The company technically hired more than 21,000 of its employees with two Cayman subsidiaries, allowing it to avoid paying Social Security, Medicare, and Texas unemployment taxes. KBR officials claimed the practice saved the military money. While the practice allows the Pentagon to save money, a *Boston Globe* investigation found the loophole ‘results in a significantly greater loss in revenue to the government as a whole’ while giving KBR a competitive advantage over competitor companies not using the loophole. In effect, the loophole lowered KBR’s contributions to the Social Security and Medicare trust funds and meant that employees could not receive unemployment benefits if they lost their jobs because they were technically employed by a foreign corporation. Robert McIntyre, the director of the advocacy group Citizens for Tax Justice, told the *Globe*, ‘The argument that by not paying taxes they are saving the government money is just absurd’.<sup>64</sup>

Similarly, while KBR’s former parent Halliburton was spinning off KBR as a separate company in 2007, Halliburton announced it would move its corporate headquarters to the no-tax jurisdiction of Dubai in the United Arab Emirates (UAE) where there is no corporate income tax and no tax on employee income (Halliburton already had seventeen foreign subsidiaries in tax-haven countries). Although the company has remained legally incorporated in the United States, moving top executives to Dubai likely allowed the executives to avoid income taxes and Halliburton to avoid employee payroll taxes and reduce its corporate taxes by arguing that a portion of its global profits are attributable to work performed in Dubai, not the United States.<sup>65</sup>

Generally under US tax law, a US firm with overseas operations can indefinitely postpone paying domestic corporate tax on its foreign income by conducting its foreign operations through a foreign-chartered subsidiary. As long as the company's foreign earnings remain under the control of the subsidiary and are reinvested abroad, US corporate income taxes are 'deferred'. The firm pays US taxes on the overseas earnings of the subsidiary only when the parent company 'repatriates' the earnings from the foreign subsidiary as intra-firm dividends or other income.<sup>66</sup> According to a 2012 J P Morgan study, US multinational firms have over \$1.7 trillion in foreign earnings 'parked' overseas and thus shielded from U.S taxes.<sup>67</sup>

During a Government Accountability Office investigation, major military contractors admitted, 'the use of offshore subsidiaries in foreign jurisdictions helps them lower their US taxes. For example, one defence contractor's offshore subsidiary structure decreased its effective US tax rate by approximately 1 per cent, equalling millions of dollars in tax savings.' (Foreign subsidiaries also protect companies from some legal liabilities and potential lawsuits.)<sup>68</sup>

Because US corporations are taxed only when they repatriate such earnings, the current tax system encourages companies to earn and then keep their income overseas.<sup>69</sup> This Congressionally enacted structural incentive applies to all industries; however, its significance extends far beyond lost tax revenues in the case of contractors doing work on US bases overseas. Given equivalent contracts to provide construction or maintenance services on a base in Texas and a base in the United Arab Emirates, for example, the base in the UAE offers more options for indefinitely reducing US taxes. In short, the US tax code encourages contractors to support the stationing of bases and troops abroad.

### **A Self-licking Ice Cream Cone**

As the FOB2012 conference neared its end, I asked another conference attendee (who asked that I not use his name) if during his wartime deployments in Iraq he had seen the problem Major Elliott had described of a base with private security guards protecting privately contracted cooks, who were cooking for the same private security guards, who were protecting the privately contracted cooks. 'A lot,' he replied. It's the 'self-licking ice cream cone' – by which he meant a self-perpetuating system with no purpose or function except to keep itself going. 'I sat with my ice cream and my prime rib on Sundays' in Iraq, he continued. It's been this way since 2001 and maybe even Kosovo. There's been lots of waste and

inefficiency. Maybe, he said of the ‘loggies’ – the logisticians who coordinate all the ‘ice cream’ – it would be better ‘to fire the lot and start over’.

In one of the conference’s final conversations, contractor and military representatives discussed fears about the military market drying up as US and European governments cut military budgets. Contractors, many agreed, would increasingly move to build, supply, and maintain bases for UN and other international peacekeepers, as well as for oil and mining companies. Peter Eberle, a representative from General Dynamics (which just missed making the top twenty-five overseas contract recipients), asked, ‘What if we have peace break out’ after the US withdrawal from Afghanistan? ‘God forbid!’ replied Major Elliott.

## Notes

- 1 IQPC, ‘Forward Operating Bases 2012’ and ‘Sponsorship Opportunities,’ <http://iqpc.com>.
- 2 Parts of this article stem from my article, ‘Where Has All the Money Gone? How Contractors Raked in \$385 Billion to Build and Support Bases Abroad since 2001,’ *Tom Dispatch*, May 14, 2013, <http://tomdispatch.com>, and my forthcoming book *Base Nation: How American Military Bases Abroad Are Damaging National Security and Hurting Us All* (New York: Metropolitan Books, 2015). Thanks to Michael Tigar, John Mage and the other editors of *MR*, Tom Engelhardt, Clifford Rosky, Laura Jung, all those who generously offered their time and insights during interviews, and many, many others for their help with the work leading to this article.
- 3 David de Jong, email to author, February 4, 2014, quoting a press officer for the Secretary of Defense: ‘Using October 2011 as a benchmark we had about 800 facilities – ranging from very small checkpoints that have maybe a squad or platoon of ISAF forces on it to bases that have several hundred to as many as a thousand ISAF members on them.’
- 4 Nick Turse, ‘Afghanistan’s Base Bonanza,’ September 4, 2012, <http://tomdispatch.com>.
- 5 By the Pentagon’s last reported count, as of September 2012, the military occupies 695 ‘base sites’ outside the fifty states and Washington, D.C. See U.S. Department of Defense, ‘Base Structure Report Fiscal Year 2013 Baseline (A Summary of DoD’s Real Property Inventory),’ report, Washington, DC, 2013, <http://acq.osd.mil>. However, this total excludes numerous well-known bases, like those in Kuwait and Afghanistan; secret bases, like those reported in Israel; and a growing number of small ‘cooperative security locations’ or ‘lily pad’ bases in Africa, Asia, and Latin American. My estimate of 800 thus is an adjustment to the Pentagon’s enumeration.
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  - 9 Commission on Wartime Contracting in Iraq and Afghanistan, 'Transforming Wartime Contracting: Controlling Costs, Reducing Risks,' final report to Congress, August 2011, <http://cybercemetery.unt.edu>.
  - 10 David Cay Johnston, 'The U.S. Government Is Paying Through the Nose for Private Contractors,' *Newsweek*, December 12, 2012, <http://newsweek.com>.
  - 11 Blaker, *United States Overseas Basing*, 9.
  - 12 U.S. Department of Defense, 'Base Structure Report.'
  - 13 What constitutes a 'base' is a complicated question. Definitions and terminology (base, post, station, fort, installation, etc.) vary considerably. The Pentagon's annual 'Base Structure Report,' which provides an annual accounting of its facilities and from which I derive the estimate of 800, refers to 'base sites' (see note 5). In some cases, this means that an installation generally referred to as a single base (like Aviano Air Base in Italy) actually consists of multiple distinct base sites – in Aviano's case, at least eight. For counting purposes, however, it makes sense to follow the Pentagon's lead, given that base sites with the same name can often be in geographically disparate locations. Generally too, each site represents a distinct Congressional appropriation of taxpayer funds. To avoid the linguistic debates, however, and because it's the simplest and most widely recognized name, I use 'base' – taken to mean any structure, facility, or place regularly used for military purposes of any kind (see Blaker, *United States Overseas Basing*, 4).
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  - 20 Chatterjee, *Halliburton's Army*, 61-62.
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  - 31 Ibid, 9.
  - 32 Valerie B. Grosso, 'Defense Contracting in Iraq: Issues and Options for Congress,' Congressional Research Service, Washington, DC, June 18, 2008,



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