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PRODUCER: Jenny Chryss

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NORTHAM: The news from Washington was deliberately held back until after the Iraqi elections, for fear of the consequences. Auditors in the US Government have checked the accounts of the oil fund as managed by the Coalition after the war, and found \$8.8 billion missing - more than 40% of the total. They can't say where it's gone, but they certainly can't be sure it's been spent on reconstructing the country for the benefit of its people, which is what the oil money was supposed to do. At the same time, details have begun to emerge of how huge sums of Iraqi and American money were lost under the Coalition. File On 4 has investigated allegations of negligence, waste, dodgy contracts and outright fraud, which swept up hundreds of millions of dollars.

LEENDERS: We can only guess how much disappears in private pockets. I really fear that Iraq reconstruction will turn into one of the biggest corruption scandals in history.

SIGNATURE TUNE

ARCHIVE CLIP – ACTUALITY OF CROWDS

REPORTER: ...five years of hatred and rage as they jump up on the statues, chanting ...

NORTHAM: As both the statue and the regime tumbled in Baghdad, Iraqis saw the end of decades of tyranny. They hoped it would also bring an end to corruption. But even some former exiles who worked with the Americans to resuscitate government and the economy have begun to wonder what happened to the symbols of Saddam's opulence. The political scientist, Dr Isam al-Khafaji, was a leading member of the post-war Iraqi Reconstruction and Development Council, until he resigned in disillusion only months after the war.

KHAFAJI: The Ba'ath Party, the ruling party during Saddam Hussein, had huge palaces. Who decided to give them to the new Iraqi elite? Where are the Lamborghinis and the hundreds of cars that they used to own? Nobody is accounting for them, nothing was presented to the Iraqis.

NORTHAM: No account?

KHAFAJI: No account.

NORTHAM: So what did happen to all the Lamborghinis and the art treasures and so on?

KHAFAJI: They were plundered, as simple as that. You almost cry with tears, literally speaking.

NORTHAM: One thing the Ba'ath Party did well – all too well – was to keep order in Iraq. After defeating him, officials in the Pentagon and the victorious Coalition found themselves presiding over near-chaos.

KROHN: It was kind of a wild west thing. The Americans were a long way from home, we were in the Green Zone, a walled area, working in the old palace for the most part, getting mortared virtually every night, so we felt we were at the edge of civilisation doing the important work for the nation. There was a lot of money that was being spent rather freely, and there wasn't a great deal of accountability in the money that flowed through the system.

NORTHAM: As a senior official in the US Army, Colonel Charles Krohn served time as the Coalition spokesman in Baghdad after the war. Under a UN mandate, the Coalition Provisional Authority was responsible for the country's assets – most importantly its oil and the revenues from it - to safeguard them for the reconstruction of the country and the humanitarian needs of its people. Huge hoards of cash from oil squirreled away by the old regime were seized by the Coalition. But where Saddam Hussein had insisted that precise accounts be kept even of shady payments in commissions and bribes, Colonel Krohn found the Coalition had a new, more casual attitude to stewardship.

KROHN: There was \$700 or \$800 million in cash that was captured by US forces early in the war, cash that belonged to Saddam and his people. I don't know what happened to that money and I don't know who does know. I suspect a lot of it was used for high-minded purposes, given to commanders to spend freely in their areas of operation.

NORTHAM: And what kind of accounts were kept of that?

KROHN: I don't know that any accounts were kept of that. When I raised a question about it to one of my associates, he pointed out that, 'Well, you know, Krohn, that \$700 million physically is a lot of money and if somebody comes in and wants a couple of million for a particular purpose, it simply takes a long time to count that much.' And I said, 'Well, as a minimum you could have waited. At least that would have shown an intent to maintain some kind of accountability. That at such-and-such an hour of such-and-such a day I gave such-and-such a person 50lb of hundred dollar bills.'

NORTHAM: Fifty pounds weight?

KROHN: Weight, fifty pounds weight.

NORTHAM: Was that a serious suggestion?

KROHN: I would have done it. I would never handle government money without some kind of accountability. We get involved in some covert programmes and the advice of my best mentor was, the blacker the money, the cleaner the books.

NORTHAM: But you're saying that the Coalition, as a matter of fact, didn't keep accounts of that money?

KROHN: To the best of my knowledge, they did not keep accounts of that money.

NORTHAM: Many questions about assets and finance throughout the year of the Coalition's rule remain unanswered. In one office, millions of dollars were kept in a safe, the key to which was in an open backpack. In the last days of the Coalition last summer, a mind-boggling quantity of cash was suddenly flown up from Baghdad to the Kurdish Regional Government in Erbil in the north of Iraq. The amount was \$1.4 billion, and its fate has become a matter of some mystery. Ginger Cruz, of the US Government auditors specifically charged with monitoring Coalition finances, was on hand to ensure that the cash was kept safe.

CRUZ: For us to transfer \$1.4 billion to the Kurdish region required three pallets of \$100 bills, which are shrink-wrapped into bricks, to be loaded onto helicopters and then flown up to Erbil and then driven to the Central Bank, where it was deposited.

NORTHAM: It's supposed to have weighed 14 tons. Is that right?

CRUZ: Yes. It's quite a sight to physically see \$1.4 billion sitting on pallets, but it's an incredible strain on the security crew, who understands that if at any moment those helicopters are shot down or if something should happen along the way, that there's no way to recoup that money.

NORTHAM: And once it had been paid into the bank, apparently someone forgot to ask for a deposit slip?

CRUZ: Yes. The group that dropped off the money thought that that had been taken care of and so they did not actually fill out a deposit slip for the \$1.4 billion, so it took about two weeks for the controller to fix that problem with the Central Bank in Erbil.

NORTHAM: The fate of this cash since it was deposited remains unclear. The Kurdish Regional Government has told File On 4 that it will all go on strategic projects to boost the economy, none of it has yet been spent and it is all still in the Kurdish region. But it's reported in the Financial Times that efforts have been made to transfer it to a Swiss Bank. The Kurdish Prime Minister acknowledges that this may have been discussed - 'probably talks have been made', he says, but they weren't official talks. When a team of accountants from KPMG were sent under the United Nations to check the Kurdish region, they reported that they were unable to obtain information regarding the intended use of this \$1.4 billion. In fact, they were kept in the dark about almost all the Kurds' finances:

READER IN STUDIO: During our procedures in Erbil, we were denied access by the Kurdish Regional Government to their accounting records.

NORTHAM: The Kurds' response is that the accountants didn't approach them, though we know that KPMG were in Erbil and even met the Minister of Finance. Breaches of the normal rules of financial accountability went remarkably far under the Coalition. A report on Iraqi Reconstruction by an eminent NGO, the International Crisis Group, points to a lack of control after the war that looks close to shambolic. Dr Reinoud Leenders, the report's author, was surprised to find that even some basic elements of businesslike housekeeping were not observed.

LEENDERS: Unlike most, if not all oil-producing countries, Iraq still has not any oil metering in place.

NORTHAM: They don't meter the output of oil?

LEENDERS: That's right.

NORTHAM: How does anyone know how much there is then?

LEENDERS: Well that's exactly the problem. We don't know how much oil is being produced, so we don't know what kind of revenues are going into the development fund for Iraq.

NORTHAM: Does this open the possibility that some oil may be smuggled and lost to revenue to the country?

LEENDERS: Yes, and given the lax border controls, given the intransparency of Iraqi institutions, you might well assume that that is the case.

NORTHAM: Why did the Coalition not insist that there should be proper metering and accounting for the oil?

LEENDERS: Well that's everybody's guess, and on top of that they have resisted for a very long time for the auditing agency ...

NORTHAM: Under the UN?

LEENDERS: Under the UN, to start monitoring and auditing the funds. This is only very recent. And the conclusions they are coming up with are devastatingly critical of the CPA's behaviour in Iraq.

NORTHAM: What are they saying?

LEENDERS: Well they are saying that not only is there no oil metering equipment in place, on top of that some oil revenues are not going into the development fund for Iraq, in violation of the UN resolutions. I really fear that, given all the factors in Iraq, which constitute a fertile ground for corruption, and the lax attitude by US officials in Iraq, that corruption will be huge and Iraq reconstruction will turn into one of the biggest corruption scandals in history.

NORTHAM: But even what the Coalition did know about Iraq's finances wasn't always passed on. Among Iraqis who were supposed to be working as partners with the Coalition in the Iraqi Governing Council, a sense of frustration grew after

NORTHAM: One of the areas of greatest concern is the awarding of contracts, together worth billions of dollars, supposedly for reconstruction and humanitarian needs. If oil revenues are to be spent properly, then the business of contracting needs to be tightly monitored. But Iraqis complain of weak controls, leaving scope for negligence, waste and fraud. Dr Isam al Khafaji, who worked with the US State Department before the war, has been dismayed to see millions after millions of dollars disappear into a web of profligate, sometimes corrupt, businesses.

KHAFAJI: The contracts were given according to, first, who knows whom; second, the Commissions. We have compiled tens of cases whereby the contract is given to companies. But none of these companies implemented the work on the ground. So when you investigate it, you discover that the first contractor subcontracts it to a second, the second to a third, who happens to be a Kuwaiti or a Lebanese, so we have not reached the Iraqi layer, to a fourth, to a fifth. Normally those who implement the project are the sixth.

NORTHAM: And the middlemen are all taking their cut.

KHAFAJI: Imagine you are paying six times subcontracting, and to the sixth, who implements the job, does it and feels happy because they are still making profits out of that sixth of the amount that was taken. Now none of these cases that I have heard of was taken through proper tenders.

ACTUALITY AT TYSONS CORNER, VIRGINIA

NORTHAM: One of the contractors under suspicion has an office on this busy commuter street at Tysons Corner, a few miles to the west of Washington DC. This area consists almost entirely of tall office buildings with floor after floor of corporations, many in the defence and security fields. On the second floor of this block, number 8201, above the Vietnamese restaurant and the hair salon, is the office suite of Custer Battles, advertising a 'very skilled breed of security professionals'. When they opened an office in Baghdad just after the war, one of the founders, Mike Battles, said, "In all my years of experience, I've rarely seen such opportunities." And it appears the company took them.

GRAYSON: Custer Battles is a private company. It's owned by Mr Custer and Mr Battles. The government somehow saw fit to give them over \$100 million in security contracts in thirteen months.

NORTHAM: Alan Grayson is a lawyer representing two whistleblowers against the company. In court documents, they allege a number of scams which they claim Custer Battles used to milk millions from both US and Iraqi funds. One of the most blatant frauds they allege was in the security operation to protect Iraq's distribution of a new currency – the dinars without Saddam Hussein's head on them. According to Alan Grayson, the scheme was simple: Custer Battles sub-contracted some of the work out, and then generated false documents showing inflated costs, which they then claimed back from the Coalition.

GRAYSON: Custer Battles established fraudulent sham companies in the Cayman Islands. They manufactured fake invoices that were purportedly issued by these controlled sham companies, which they then turned around and billed to the government.

NORTHAM: And the Coalition paid these invoices that were actually fake, did they?

GRAYSON: Yes. One example is the fact that there were forklifts that Custer Battle found in the course of performing the Baghdad International Airport contract. These were Iraqi Airways forklifts, and Custer Battles found them simply because they were on site and occupying that site and there was nobody else there. What they did was they painted them over so that no one could see anymore that these were Iraqi Airways forklifts, and then they turned around and leased them to a shell entity of their own making and then in turn billed that to the US Government.

NORTHAM: They charged for forklift trucks which they had actually found at the airport?

GRAYSON: That's right. They charged for equipment that they never owned. Another example, a helicopter pad, which cost something on the order of \$50,000, the company made up fake invoices and ended up billing the government over \$130,000 for it.

NORTHAM: Altogether, how much fraud do you think Custer Battles committed in Iraq?

GRAYSON: Our best estimate at this point is approximately \$50 million.

NORTHAM: Fifty?

GRAYSON: \$50 million, that's correct.

NORTHAM: One of the whistleblowers in this case is Robert Isakson, Managing Director of a separate security company, which worked with Custer Battles on its contracts in Iraq. In an affidavit, he describes a conversation with the other founder, Scott Custer, about the idea of creating phoney, and very lucrative, invoices.

READER IN STUDIO: Mr Custer brought up and discussed the possibility of using shell companies to increase the profits. He advised that he had a second company through which assets and purchases could be funnelled. I stated my view that such an arrangement would be illegal and that we were not interested in participating in such a scheme. I told Mr Custer that everyone would go to jail.

NORTHAM: An internal company document from one of its managers, included in the court papers, sets out what it calls 'enormous areas of discrepancies and irregularities that lend themselves to elements of criminal fraud'. It's dated February 28th last year. The company has not yet had to file a substantive defence, and our repeated attempts to arrange an interview have met with no response. A statement on Custer Battles' website dismisses the whistleblowers' claims as 'baseless' and accuses them of business rivalry. But the American-led Coalition has itself lost faith in the

NORTHAM cont: Department of Justice has refused to join the whistleblowers' action against the company. Their lawyer, Alan Grayson, wonders if Washington may actually be happy to see this case fail. We understand there are more than thirty cases pending involving other companies.

GRAYSON: Behind this case are larger cases, cases that are still under seal that people aren't even allowed to talk about at this point, as a matter of law. And if this case is swept under the carpet, and this case is one where people escape all punishment, despite the serious amounts of money involved here, then the even better connected people will benefit from this directly as well, because if Custer Battles gets away with this, then so will they.

NORTHAM: There are two fundamental aspects of the Coalition's contracts which left Iraq's oil wealth vulnerable to waste, overcharging and fraud. The first is that two-thirds of the early contracts were awarded without competition - they're known as sole-source, a breach of the normal government rules defended on the grounds of emergency. The other potential problem is that many were so-called cost-plus contracts, in which a company is paid whatever it spends, plus a management percentage. The defence given for this is the uncertainty of what would be required in the chaotic aftermath of the war, but it creates the opposite of conventional market forces - the higher the company's costs, the more profit it makes. But these departures from normal standards demand special care to ensure probity. In President Bush's first term, the lawyer Angela Styles was his Administrator for Federal Procurement Policy. She accepts both types of contract in principle, but only on condition that they're tightly monitored.

STYLES: I certainly think there are a lot more risks when it's a sole source situation. There's a lot more risk that other people out there who could have done it better or cheaper didn't have the opportunity to do that, and that's why competition is so important.

NORTHAM: So if you've got a contractor who not only has a cost-plus contract, but got it without competition, they're in a very strong position, aren't they?

STYLES: Absolutely. These contracts don't work unless there's a significant amount of oversight by the government. When the government's pressed, when they have to do things quickly, when they can't have all the normal constraints that they would usually have in place, I think there are always going to be people out there that take advantage of the system. We have to find those people and we have to make sure that they're held accountable if they do.

NORTHAM: Cost-plus contracts awarded without competition are at the heart of complaints against the largest contractor in Iraq by far. It's one of the best-connected companies in the world, the one the US Vice-President used to run, Halliburton. The company's internal control of its contracts is criticised by a whistleblower. Marie de Young was a logistics specialist working in the sub-contracts department for Iraq, based across the border in Kuwait. By the time she began work there, early last year, the company had had more than six months to get its financial house in order. Marie de Young knew that that could be done, she'd seen it happen in an earlier Halliburton operation in Kosovo. But last year, for Iraq, she saw a very different pattern.

DE YOUNG: I was shocked because I had seen Halliburton's system. I was very surprised that they weren't monitoring costs as you go, because I have managed army budgets for many years and you get a report every month saying, 'You've accomplished so much spending and you've accomplished so much work.' Well, they weren't generating these kinds of reports.

NORTHAM: Halliburton didn't have those kind of monthly reports?

DE YOUNG: No, they did not. They were not controlling the spending, and when I suggested to my first manager there that we needed to do this, that it was a good, sound accounting practice, I was told stop, cease and desist. There was a resistance to creating documents that would prove cost overruns were really inflated charges. In so many other contracts, for example automobiles, we were paying but I spent a good six or seven weeks trying to track down automobiles that we were paying for, we didn't even know where they were. They didn't know who had what vehicle, because they didn't have a process. I mean, they'd have a manual that's about 3" thick, but the supervisory team weren't following legitimate normal business practices.

NORTHAM: What most troubled Marie de Young was that she thought Halliburton didn't properly control its payments to sub-contractors, by ensuring that work had actually been done and goods actually provided as invoiced. These, under the contract, were costs that were passed straight on to the Coalition with a percentage charge on top. If Halliburton wasn't keeping an eye on them, who was?

DE YOUNG: I was horrified to discover, when I went into detail, that they were asking us to sign off on contracts that weren't ours.

NORTHAM: Who was asking you to sign off on contracts?

DE YOUNG: The sub-contracts department ...

NORTHAM: Halliburton's sub-contracts department ...

DE YOUNG: Correct.

NORTHAM: ... were telling you what?

DE YOUNG: They would lay out these contracts for the managers to sign, and there wouldn't be any supporting documentation showing, you know, this is what you are paying for.

NORTHAM: So are you saying that you've seen cases where contracts have been paid without Halliburton verifying that those services had actually been delivered?

DE YOUNG: Routinely.

NORTHAM: Routinely?

DE YOUNG: Routinely. I can say that, routinely. My question is, why would you pay on something, why would you recommend paying on something if there are no invoices? Why are you not in contact with the vendor, with the end user?

NORTHAM: Has any of that money been paid back?

WAXMAN: It should be paid back, in my opinion, but none of that money has been paid back, nor has Halliburton had any withholding of money that should be paid to them in order to make sure that the government is reimbursed. Halliburton has not paid much of a penalty for the documented overcharging of the taxpayers of the United States and the Iraqi oil money that was used for part payment for their activities.

NORTHAM: Congressman's Waxman's suspicion of overcharging by Halliburton is raised further by a Pentagon audit covering only part of the time the Coalition ran Iraq, which concludes that in the early months after the war, the company may have overcharged for fuel by a total of \$61 million. The Department of Defense calls it a 'potential overpricing'. In the absence of an interview for this programme, a statement from Halliburton says it undertook substantial efforts to find the lowest possible price for fuel and claims that the Pentagon's auditors started from an 'erroneous premise'. It's a dispute between the company and the government, which has never been put to the test. Once the Defense auditors had identified this potential overpricing, Halliburton should have been made to produce evidence that its prices were indeed fair. But the US Army suddenly waived this requirement, in circumstances which remain disputed, and it was back to business as usual. The most serious charges made against Halliburton concern bribery. A State Department document reports complaints to the US Embassy in Kuwait from a leading oil contracting company. Their allegations could hardly be more stark:

READER IN STUDIO: It is common knowledge in Kuwait that Halliburton officers are on the take; that they solicit bribes openly; that anyone visiting their seaside villas at the Kuwaiti Hilton who offers to provide services will be asked for a bribe.

NORTHAM: This was reported to the Pentagon in August 2003 and released to the Congressional Committee on Government Reform late last year. The senior Democrat on that Committee, Congressman Henry Waxman, has called for new hearings on the allegations, which the Republican majority has not arranged.

WAXMAN: We don't know whether it's true or not, we don't know whether there's an investigation going on or not, and we don't know if anything will come of it, but we're going to keep on asking the questions and try to insist that action be taken. There was one other example of corruption with Halliburton, that Halliburton acknowledged, and that was a couple of Halliburton employees were taking kickbacks in order to give the sub-contract. Halliburton fired those employees, they openly admitted it. We haven't been able to get all the information about that as well. We can't even get the names of the people who took the bribes. In this case, where we're seeing US taxpayers' money being squandered, you would think that they would want to let the American people know that the government officials are on top of it and going to make sure this doesn't happen any longer. What I get from the whole picture of Halliburton's activities in Iraq is they've been gouging the American taxpayers, improperly taking Iraqi oil money, and getting away with it because this administration so far is letting them get away with it.

NORTHAM: Allegations of demanding bribes for contracts go beyond Halliburton. They also point to officials of the Coalition Provisional Authority itself. As the Coalition ran Iraq after the war, a British advisor to the Iraqi Governing Council, Claude Hanks-Drielsma, was concerned at information he received in Baghdad.

HANKES-DRIELSMA: The perception by Iraqis, government officials, civil servants and ordinary Iraqis was that many people within the CPA behaved in a corrupt manner. Contracts were not necessarily awarded to the benefit of the Iraqi people, but sometimes at the expense of the Iraqi people. It was brought to my attention by those who I have known for many years that officials within the CPA demanded significant bribes in order to obtain contracts. I am aware of figures up to \$300,000 in cash.

NORTHAM: Just to get this quite clear, you are saying that people working for the Coalition demanded, in plain terms, bribes in order for contracts to be awarded?

HANKES-DRIELSMA: Correct. It was most unfortunate, given that the Coalition forces, the liberation of Iraq, it was a great achievement, it was recognised as such by the Iraqi people, but the subsequent handling of events was a disaster.

NORTHAM: Claude Hanks-Drielsma says he reported these allegations of bribery up the Coalition hierarchy and he believes that, behind the scenes, they are under investigation in Washington. In all, something over \$20 billion of Iraq's oil wealth and an estimated \$3 billion of US taxes were spent under the Coalition – supposedly for the reconstruction and development of the country. But the lamentable state of much of Iraq's infrastructure and public services lead many to question where the money actually went. The US government auditors, who have this week identified the problem of the missing \$8.8 billion of Iraq's oil revenues, say there's no assurance that this huge sum was used for reconstruction or humanitarian needs. They blame 'severe inefficiencies and poor management' under the Coalition Provisional Authority, the CPA, and the auditors' Chief of Staff, Ginger Cruz, politely points to less than adequate controls of money and contracts.

CRUZ: We believe that there was insufficient internal control to assure that the CPA could meet the mandates of the United Nations and assure that that money was spent for the benefit of the Iraqi people, as the UN Security Council resolution mandated. We do understand that there was a war at the time and there were very extenuating circumstances. You're talking about an Iraqi government that was still in place at the time, although all of the management was gone. So when the CPA came in and they placed advisors at the ministries, there was a combination of responsibility. The degree to which we believe the CPA should have been responsible for the establishment and tracking of controls is a point of disagreement with the officials from the CPA. They feel that they provided adequate supervision and we contend that there needed to be more supervision due to the fact that you had such a chaotic situation after the war.

NORTHAM: How high in the Coalition did this failing go? Did it go right to the top, to Ambassador Bremer?

CRUZ: We believe that it did, and we believe that there should have been better management controls placed over money that was turned over to the Iraqi ministries.

NORTHAM: Ambassador Paul Bremer, the former Head of the Coalition, wouldn't be interviewed by File On 4. But in a scathing letter to the auditors, he says they fail to understand the context in which the Authority was operating - you can't

