

STATEMENT OF
FIRST KUWAITI GENERAL TRADING & CONTRACTING COMPANY

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

“Hearing on Allegations of Waste, Fraud, and Abuse
at the New U.S Embassy in Iraq”

Thursday, July 26, 2007

Washington, D.C.

First Kuwaiti General Trading & Contracting Company appreciates the opportunity to provide written testimony to the United States House of Representatives Committee on Oversight and Government Reform describing our efforts in support of the United States Government’s mission in Iraq and responding to the false allegations regarding our workmanship and labor practices. We are working to complete the State Department’s largest single project in the next 45 days.

Since 2003, First Kuwaiti has performed over 200 contracts in support of the U.S. Government’s mission in Iraq. Our work has ranged from providing support services, such as housing and laundry for U.S. military personnel, to undertaking major construction projects. We have employed over one thousand pieces of our own equipment and nearly 8,500 workers from around the world in fulfilling these efforts.

First Kuwaiti is not performing this work in the suburbs of California or Virginia; rather, we are providing services in a violent and dangerous war zone in Iraq. For those of you who have visited Iraq, you know first-hand that the impacts of this hostile environment are difficult to overstate. For each of the projects that First Kuwaiti has undertaken, the vast majority of our equipment, our supplies and our workforce have to be brought into Iraq with U.S. military escorts and convoys. Constant insurgent activities and bombings make movement within Iraq limited and perilous. In addition, frequent military signals and operations, as well as the shutdown of borders by the Iraqi government, disrupt our work and interrupt our momentum. The fulfillment of our contractual obligations under these circumstances is extremely challenging.

The Embassy Contract Was Awarded Based On Best Value

In 2005, the U.S. Government solicited competitive bids for the construction of the New Embassy Complex (“NEC”) in Baghdad – the State Department’s largest single project. First Kuwaiti competed for the contracts, was pre-qualified, and won the awards on the basis of best value. Contrary to some media reports, the value of all the NEC contracts awarded to First Kuwaiti was just over \$469 million. The contracts called for the construction of 27 facilities on about 65 acres of land, including the Embassy office

buildings, residential buildings, water and waste water treatment facilities, recreation facilities, support facilities, and Diplomatic Security-approved perimeter ram walls. At the Committee's request, we have provided a copy of the NEC contract documents.

Today, just over two years later, we are very proud to report that the project is on time and within budget. The independent accreditation team that forms part of the handing-over process is scheduled to arrive within weeks and the project is currently scheduled for completion by September of this year. This will allow the Embassy staff to move from Saddam Hussein's former palaces into a permanent home that is safer and more secure.

The increasing hostilities in Iraq have made our work extremely difficult and more costly than anticipated. First Kuwaiti work sites and convoys have been attacked on countless occasions. While the U.S. Government has done its best to protect us, First Kuwaiti employees have been injured and killed, and equipment has been stolen and destroyed. In response to the constant and severe disruption of our performance at the Embassy site by the increase in attacks and hostilities, First Kuwaiti opted to deploy additional manpower, supplies and equipment to meet the original schedule. First Kuwaiti absorbed these unforeseen costs and burdens.

U.S. Government Personnel Observe And Commend Our Work

First Kuwaiti is not constructing the Embassy in isolation. To the contrary, we are working in close coordination with U.S. Government employees on the site. The State Department's Bureau of Overseas Building Operations ("OBO") has approximately 150 engineers, supervisors, construction personnel, and project managers at the site observing, inspecting, and certifying our work. The OBO officials live on the site with us and interact with our employees and managers on a daily basis. In addition to OBO personnel, the site has security guards from Triple Canopy controlling the perimeters of the site, and the International Zone police are present throughout the Green Zone and are immediately available in the event they are needed. All of these people are on the site everyday, walking around, and are accessible to any First Kuwaiti employee wanting to talk with them.

First Kuwaiti has repeatedly received praise for its work on behalf of the U.S. Government. The U.S. Army, the Marine Corps, and the State Department, as well as other prime contractors, such as KBR, have commended in writing the work and performance of both First Kuwaiti and individual First Kuwaiti employees.

First Kuwaiti Has Been Falsely Accused By Business Competitors And A Few Disgruntled Former Workers

Regrettably, First Kuwaiti has been attacked by our business competitors and a few former workers with allegations that First Kuwaiti has provided poor construction quality and has poorly treated its employees. These allegations, which were reported on July 5, 2007 in a Washington Post article entitled "Construction Woes Add to Fears at Embassy in Iraq," are untrue. Despite this attention-grabbing title, the article was in fact

referring to a guard camp that, although constructed by First Kuwaiti, was a project separate from that of the Embassy with separate budgets, different First Kuwaiti management teams and different State Department supervisors. Upon completion of that project, and contrary to the allegations about the poor quality of construction at the guard camp, the State Department certified that First Kuwaiti work "meets or exceeds" all of the contract requirements. We have provided the Committee with a copy of the State Department's signed certification.

Subsequent to the completion of our guard camp effort, State Department cables stated that KBR alleged that there were deficiencies in First Kuwaiti's work: formaldehyde fumes in the new, prefabricated trailers installed at the site, inadequate wiring, and leaky fuel tanks for generators. The prefabricated trailers at the guard camp are the same trailers used across Iraq. First Kuwaiti does not manufacture the trailers; we buy them commercially. In fact, just last week, First Kuwaiti delivered the same type of trailers to KBR, which found them to be satisfactory. We believe the wiring problems occurred because of improper operation placing more demands on the electrical systems than the specifications allowed.

To our knowledge, there have been no specific allegations of poor construction quality regarding the Embassy project. OBO personnel have been at the Embassy site every day observing, inspecting, and approving every aspect of our work, from materials that we utilize to the construction services we provide. This is documented in volumes of quality reports, submittal approvals, lab reports, and certifications. Furthermore, prior to handing over the Embassy project by September of this year, an accreditation team alongside the State Department will certify compliance with the contract specifications before formally accepting the hand-over of the project.

When First Kuwaiti was awarded the Embassy contract in 2005, we immediately deployed our equipment and personnel to the site. We started with the debris removal and grading of the land allocated for the Embassy in preparation for the construction of essentially a small city. Over the course of 26 months, this effort has involved the services of approximately 4,000 First Kuwaiti employees.

Unlike a deployed army, First Kuwaiti personnel do not sleep on the ground and eat MREs. From the outset, we brought in trailers and port-a-johns, and utilized the same food catering services used by KBR and the military in the Green Zone. Over the course of the first three months, we progressively added more trailers, running water, medical services, sewage systems and dining facilities. Eventually we provided our multinational workforce with 5 different dining facilities serving diverse ethnic dishes chosen by the employees themselves – a highly unusual luxury in Iraq. Above and beyond the requirements of our contracts, First Kuwaiti provided all the laborer trailers with site hardening using concrete T-walls and overhead protection. Furthermore, we provided our workforce with a barber shop, telephone booths, laundry and housekeeping services, a mini-market similar to a military PX where our laborers buy goods at cost (i.e. with no profit to First Kuwaiti), and an internet café. Finally, First Kuwaiti provided sites designated for worship of diverse religions, and provided supplies required for that worship.

Despite all of the efforts that First Kuwaiti has exerted beyond its contractual requirements, there have been allegations by former employees that First Kuwaiti engages in human trafficking and mistreats its work force – unsubstantiated claims that have ended up in salacious articles in the media.

In one article dated June 7, 2007, the Wall Street Journal identified the source of these allegations as John Owens and Rory Mayberry. Both men formerly worked for First Kuwaiti in Iraq. Mr. Mayberry was “on the job” for less than a week. He was recruited by a U.S. company to serve as a paramedic. However, when Mr. Mayberry arrived for work he could not, despite repeated requests, verify his qualifications. First Kuwaiti was forced to immediately terminate his employment. Mr. Owens worked for First Kuwaiti for approximately seven months. According to the Wall Street Journal article, Mr. Owens now has filed a qui tam lawsuit under the False Claims Act by which, if the suit were successful, he would receive a portion of any damages and penalties. Both Mr. Mayberry and Mr. Owens have a personal interest in making these allegations.

According to the Wall Street Journal article, the specific allegations are that First Kuwaiti engaged in “fraudulent hiring practices” by recruiting employees without telling them they would be working in Iraq. The article also suggests that First Kuwaiti employees were holding boarding passes to Dubai, only to end up in Iraq, and that the Company confiscated the employees’ passports to keep them from leaving Baghdad. These allegations are false.

The implication that First Kuwaiti laborers are brought into Iraq against their will and are kept there to work against their will is absolutely ludicrous. The majority of First Kuwaiti’s employees come through recruiting agencies. Both the contracts with the recruiting agencies and the contracts with our laborers have “State of Iraq” clearly written on them. About 170 of our laborers that have come to Iraq and that have gotten homesick, had family emergencies, or for whatever other reasons have wanted to leave before their one-year contracts expired have returned to their homes. Several of those have later emailed First Kuwaiti asking for the opportunity to rejoin our workforce. Over 1,100 of our employees in Iraq have gone on their annual leave and then returned to extend their contracts, including 600 First Kuwaiti employees on the Embassy project. Additionally, over 150 employees have ended their employment, returned to their home countries, and later contacted First Kuwaiti to return to work again in Iraq.

Furthermore, OBO issues all Embassy employees a badge that allows them full access to the entire Green Zone. Employees are required to have their badge on them at all times. The badge gives them complete freedom to move around within the Green Zone, and by so doing allows employees access to OBO personnel, International Zone police, and Triple Canopy security guards. Moreover, early in the project, First Kuwaiti worked with OBO to obtain approval for the OBO badge to also allow our workforce access to the main military PX. First Kuwaiti employees live, work and eat on the same site as over 150 U.S. Government employees. If that were not enough, all First Kuwaiti employees have access to telephones and the internet, and most have their own cell phones.

It is true that First Kuwaiti safeguards our employees' passports in a fireproof safe at the Embassy site. This is a common practice in Iraq and is designed to ensure that employees do not lose their passports. Without a passport, an employee in Iraq would run the risk of the Company not being able to evacuate him for medical or safety purposes. In one instance where an employee lost his passport, it took him, with the help of the Company, several months to have it replaced. There are no active embassies in Iraq for some of the nationalities of our workforce, making it more difficult and more time-consuming to obtain a new passport. For those nationalities whose embassies are present in Iraq, their embassies are located in the Red Zone, making it life-threatening to obtain a new passport.

Even beyond the Embassy project, all of the employees sent by First Kuwaiti to Iraq work on U.S. Government sites. Many of them have served as laborers at three Army camps under a subcontract with KBR and under the direct supervision of KBR employees. KBR awarded this subcontract to First Kuwaiti in December 2003 and about two weeks ago requested that First Kuwaiti extend this labor supply contract to 2008. Over 70 of the laborers that First Kuwaiti provided under this subcontract have received certificates of appreciation and recommendations from KBR for their performance. First Kuwaiti also provided construction crews to the U.S. Army Corps of Engineers ("USACE") at a camp in the Tikrit area. Those laborers worked under the direct supervision of USACE personnel. First Kuwaiti received a certificate of appreciation and a recommendation from the USACE for its "exceptional performance" and its "professionalism" for the Company's support of the people on the ground and for the "great lengths to which this Company goes to care for the welfare and safety of their employees." The allegations of human trafficking initially reported in the press reference conduct at these same camps. If there were signs of human trafficking, the Army, the USACE, or KBR surely would have reported it or notified First Kuwaiti.

The Inspector General of the Department of State, the management office of the Embassy in Baghdad, and the Department of Defense Multi-National Force Iraq have each investigated the allegations made by Messrs. Mayberry and Owens and have found no evidence of human trafficking. The MNF-I report found that the Embassy camp "rated in the top third with above average quality of life conditions."

First Kuwaiti is proud of all of its achievements in Iraq. We have done our best to support the U.S. forces and troops in their missions. We sincerely hope that the Committee members will recognize First Kuwaiti's efforts as a success.