

The Pentagon's Private Army;

They run the mess halls. They program the weapons. They even recruit soldiers. And if America goes to war against Iraq, private military companies will play a bigger role than ever before.

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American tanks move down a narrow street as explosions rattle the ramshackle town. Behind them, infantrymen outfitted in the latest high-tech gear creep forward, looking out for snipers, as well as for refugees and other civilians who could end up in the middle of a firefight. The brass has told the commanders in the field to keep collateral damage to a minimum, and headquarters is monitoring every step the grunts take via real-time voice and data links. Suddenly shouts are heard over the roar of the tanks, and a figure rushes onto the road. The soldiers tense and prepare to fire, only to see that it's a man from the town, hollering at them in a language they don't understand. A specially trained member of the unit quickly approaches him, says a few words in the man's native tongue, and gets him out of harm's way.

This scenario could come to pass in a few weeks in Baghdad if America does go to war, but for now it's an exercise soldiers are taking part in at the U.S. Army's Joint Readiness Training Center in Fort Polk, La. The drill reveals more than just the Pentagon's concern for civilian casualties. It also demonstrates the large--and growing--role that private companies play in war. For while the men and machines are from the Army, just about everything else--from the explosive charges and electronics to the refugees and even the war game itself--has been supplied by a publicly traded company called Cubic.

If and when the shooting starts in Iraq, American companies will be more critical than in any previous conflict, including the last Gulf war. That's because the Army has changed dramatically in the past decade, shedding almost one-third of its soldiers even as it has taken on missions from Kosovo to Kabul. At the same time, a government-wide push to privatize, as well as the increasing complexity of military hardware, makes the military more and more dependent on contractors. The upshot is that the Pentagon is outsourcing as many tasks as possible to enable

the military, if you'll forgive the MBA-speak, to focus on its core competency: fighting.

Mundane chores like KP duty and laundry detail have been outsourced at bases as far away as Afghanistan and Kuwait. Closer to home, even recruiting is being privatized. At stations in ten states, the medal-bedecked, ramrod-straight recruiter of yesteryear has been replaced by a casual-Friday-outfitted headhunter from one of two private firms. You probably have never heard of these corporations--Cubic, DynCorp, ITT, and MPRI aren't exactly household names--but the Pentagon would clearly be lost without them. "You could fight without us, but it would be difficult," says Paul Lombardi, CEO of DynCorp, which saw revenues rise 18% in 2002, to \$ 2.3 billion. "Because we're so involved, it's difficult to extricate us from the process."

The process, as Lombardi calls it, happens to be big business--very big business. Computer Sciences Corp., an IT-consulting giant, agreed late last year to buy DynCorp for nearly \$ 1 billion, and L-3 Communications scooped up MPRI for \$ 35 million in 2000. Cubic Corp.'s profits rose 41% in fiscal 2002, and its stock price has tripled over the past four years. By one estimate, the Pentagon this year will spend at least \$ 30 billion--or 8% of its overall budget, on private military companies (PMCs), even if the U.S. doesn't invade Iraq.

Like the peddlers who shadowed Napoleon's armies, many of these companies are nestled close to the Pentagon, in bland northern Virginia office complexes. Staffed largely by ex-military types and former top Defense Department officials, they are the latest iteration of the military-industrial complex. Sometimes it's difficult to tell the civilians from the warriors on today's battlefield. While executives at DynCorp and other companies emphasize that most of their work consists of noncombat jobs like maintaining planes and choppers, installing software, mowing base lawns, and hauling garbage--"ash and trash" in industry parlance--certain missions blur the lines. For example, DynCorp won a State Department contract to protect Afghan leader Hamid Kharzai, who survived an assassination attempt last fall. Former members of Delta Force and other elite units, the DynCorp employees in Kabul carry guns and serve right alongside active-duty Special Forces soldiers. MPRI, for its part, has trained foreign militaries in places like Croatia and Bosnia.

Perhaps nowhere have private military companies played a more significant role than in the war against drugs in Colombia. At least a half-dozen companies, including Airscan, Northrop Grumman, and DynCorp, receive up to \$ 1.2 billion a year from the Pentagon and the State Department to fly the planes that spray suspected coca fields and to monitor smugglers from remote radar sites, says Brookings Institution scholar P.W. Singer. Just last month a small plane carrying employees of Northrop Grumman crashed in rebel-held territory. One of the employees was killed, and three are being held prisoner by the rebels. U.S. and Colombian forces are still searching for them.

"That is exactly the kind of situation that I was concerned about," says Democratic Representative Jan Schakowsky of Illinois, a critic of the private companies that help fight the drug war in Colombia. "There's a great lack of transparency when you contract out, yet if something happens, we're supposed to use our military to go in and rescue them and get involved in other conflicts." Indeed, Northrop Grumman has refused to say what its employees

were doing when the plane crashed, or even to answer questions about how many people it has in Colombia or what the company does there, citing the terms of its contract with the State Department.

As we'll see, the question raised by the incident in Colombia is but one of many concerning the rising prominence of private military companies. "This is a huge and growing industry that is increasingly active in a number of conflict zones," says Singer, who is completing a book on the subject. "The state is usually thought of as having a monopoly on the use of force. But it doesn't anymore."

Despite misgivings about PMCs in Congress and elsewhere, the Pentagon has had little choice but to embrace privatization as part of its ongoing effort to modernize and become more efficient. "Only those functions that must be performed by the Defense Department should be kept by the Defense Department," an internal Defense Department study concluded shortly after Sept. 11, 2001. "Any function that can be provided by the private sector is not a core government function." If that sounds like a broad mandate to privatize, well, it is. "There's a recognition that we can't be good at everything," says Ken Krieg, a former International Paper executive and Pentagon veteran who is now a top advisor to Defense Secretary Donald Rumsfeld. "It's an acceptance of what companies are already thinking in terms of core competencies. Do we need to have privates on KP duty slicing potatoes? Probably not. So I think this trend is just starting."

While big business may play a more significant role in the next war than ever before, it's hardly a stranger to the battlefield. Just as private companies aid high-tech communications today, contractors helped man telegraphs in the Civil War while other private firms hauled wagons and provided food. A century later DynCorp helped airlift troops to Korea and had some 3,000 employees stationed in Vietnam servicing Huey helicopters and other aircraft.

What's different now is the scale and scope of the services the companies provide. In the late 1990s Halliburton's KBR unit provided nearly all the food, water, laundry, mail, and heavy equipment to the roughly 20,000 U.S. troops stationed in the Balkans, according to a study by the General Accounting Office. It's a massive job--since 1999, KBR has served 42 million meals and washed 3.6 million bags of laundry. Nor has it been cheap: The military has paid KBR \$ 3 billion. (Halliburton's CEO in the late 1990s was Vice President Dick Cheney, who had served as Defense Secretary in the first Bush administration.) When you figure that ten times as many U.S. troops are in the Middle East today as were in the Balkans in the late 1990s, you get a sense of how big a job KBR now has providing support at bases in Kuwait. "There are a lot of people to take care of," says Butch Gatlin, a former Army engineer who is now KBR's project manager in Kuwait. "As long as the Army needs us, we'll be here." Several hundred KBR employees are scattered over at least half a dozen bases in Kuwait.

As the military has downsized and privatized, the number of private contractors in the field has soared. Back in 1991, when American troops last faced down Saddam Hussein, the Army had 711,000 active-duty troops. Today it has 487,000--a 32% drop. Cuts in the number of Navy and Air Force personnel have been just as steep. (The Marine Corps has been more stable--semper parati--dropping only 10% in the past decade.) So no one should be surprised that private

companies have picked up the slack. Singer of Brookings estimates that during the last Gulf war there was one contractor for every 50 to 100 soldiers. This time around the ratio is more like one for every ten. "Though we've relied on contractors forever, it's unprecedented how much we depend on them right now," says Paula Rebar, a senior Pentagon analyst who focuses on management issues. "Whether it's good or bad, it's the reality we have to deal with." For the companies, it means having many more workers in what military people call "forward areas"--that is, close to the action. SAIC, a \$ 6.1-billion-a-year employee-owned firm that specializes in engineering, software, and IT consulting, has 150 workers in the Middle East. At this stage of Desert Storm, it had just five in the region.

Unfortunately, military policy hasn't caught up with the new reality. "It's all unfolded so quickly that the Defense Department is playing catch-up," says Rebar, ticking off some of the thorny questions that arise from having privately employed personnel on the battlefield: Can they carry arms? If employees of private companies run from their posts when attacked, are they considered deserters? If taken prisoner, are contractors considered POWs and covered by the Geneva Convention? The answers to those questions aren't reassuring--because the Pentagon doesn't yet have any. "Policy is still being drafted, and it's still kind of mushy," Rebar says. "It's being studied."

It's probably too late to reverse the military's need for private know-how. Although the Pentagon is reportedly considering new weapons that aren't as dependent on contractors, many tech functions have already been outsourced. "We don't have that organic capacity anymore, so we're forced to go to war with contractors," says Rebar. "It can put us at risk. And it places added burdens on the commander in the field. Not only does he have to worry about his soldiers, he has to provide protection for the contractors."

The Reston, VA., headquarters of Dyncorp, the country's premier private military company, is as bland as the corporate art on its walls. The only giveaway that there might be a martial connection is the black POW-MIA flag that stands alongside the Stars and Stripes in the reception area. While many of the company's 23,000 employees are ex-soldiers, CEO Paul Lombardi is a soft-spoken veteran of the IT business and civilian positions in the Navy and Department of Energy. Because of DynCorp's work in Colombia and Afghanistan, among other places, media accounts often portray it as the kind of shadowy company that might show up in an Oliver Stone film.

Yet unlike several of his counterparts at other firms, Lombardi seems eager to talk about DynCorp's work. The bulk of the company's \$ 2.3 billion in sales last year came from much less sexy stuff than toting guns around Kabul or buzzing coca fields in the Andes--operating bombing ranges in California, maintaining military aircraft in Oklahoma, installing secure communications links for overseas troops. Although the federal government provides nearly all of DynCorp's revenue, the company has a growing private-sector business as well. In 1994, for example, it installed a wireless network on the floor of the New York Stock Exchange. "But you're not going to write about that," Lombardi tells FORTUNE, sounding almost weary from the media's focus on the Karzai and Colombia deals. Still, it's hard not to notice his company's PMC-type work, which is handled mostly by its international division. In the past five years DynCorp International's revenues have gone from a few million dollars to \$ 700 million, or about

25% of total revenues.

DynCorp's roots are in aviation--the firm started as California Eastern Airways in 1946--and its aircraft-maintenance business has received a big boost in recent years from a wave of outsourcing by the Air Force. Two and a half years ago DynCorp won a \$ 280 million contract from the Air Force to service the government's executive air fleet, including the Vice President's plane and the President's choppers. (Air Force One is still maintained by the military.) At Fort Rucker in Alabama, where DynCorp's headcount has doubled to 3,000 in the past five years, DynCorp's mechanics service the planes and store aircraft parts.

DynCorp's impressive growth (total revenues have tripled since 1994) and rock-solid relationship with the Pentagon explain why Computer Sciences Corp. decided late last year to buy DynCorp for \$ 950 million. The deal should close this month, and Lombardi says he plans to stay until the transition is complete, which could take up to a year. Looking ahead, Singer of Brookings predicts that CSC might spin off DynCorp's more dangerous operations--like flying planes in Colombia and guarding imperiled world leaders--and focus on safe, predictable businesses like IT and aircraft maintenance. "You might not want your stock price to go down every time a plane crashes in Colombia or there's an assassination attempt in Kabul," he says. In 2000, DynCorp was embarrassed by a sex scandal in Bosnia, where seven of its employees allegedly owned prostitutes, including one as young as 12. The episode raised questions about the company's management of its overseas operations. Lombardi responds that all the employees linked to the prostitution ring were immediately fired and that the company did nothing wrong.

Meanwhile, back in the U.S., PMCs are broadening their portfolio. Companies like DynCorp and MPRI are offering services ranging from teaching leadership to formulating military doctrine. Guess who helped write the manual on dealing with contractors? A contractor--MPRI. That company, as well as RCI, a private firm in Vienna, Va., is also moving aggressively into the recruiting market, sharing a new \$ 171 million contract to operate 60 stations in ten states. Lt. Col. Diane Potts of the Army's recruiting command says the goal of this pilot program isn't to save money--it's to free up troops for more vital needs. So far, 360 soldiers have been returned to the field.

With a ready pool of young retirees (soldiers can retire with full benefits while still in their 40s) and a military desperate to keep officers in the field, combat simulations, classes, and live-action war games are also being run by corporations like DynCorp, MPRI, and Cubic. The Pentagon is paying private companies as much as \$ 4 billion a year for training, according to Singer, and the companies provide more than laser-signal-equipped guns and smoke bombs. Along with preparing after-action reports and adjudicating "kills," Cubic brings in Bosnian refugees from around the U.S. to recreate their experiences at the Army war games at Fort Polk. It's a big production--in January more than 600 Cubic employees were needed to create an exercise for 6,500 troops.

And now the military training industry is expanding overseas. MPRI advised the Croatian army shortly before it launched a pivotal attack against Serb forces in Bosnia in 1995 and more recently advised the Colombian Defense Ministry. Cubic has won contracts from the Pentagon

and the State Department to train the armies of new NATO members like Romania, Hungary, and the Czech Republic in NATO doctrine. That work has given the San Diego company entree to winning direct business from these governments in the future. "We may not be a household name in America," says Gerald Dinkel, who runs Cubic's defense unit, "but we're getting to be pretty well known in Eastern Europe." DynCorp helped train the Haitian police and is now advising members of the new Afghan police.

All of which brings us to Iraq. We wouldn't be so crass as to describe that crisis as a business opportunity--too many lives are on the line. But the fact is that if America goes to war, private companies are going to be deeply involved both in supporting the troops during the fighting and in whatever peacekeeping and reconstruction efforts follow. Just getting water into the heart of the Iraqi desert, let alone food and other supplies, is a monumental challenge. And it's clear from Halliburton's experience with much smaller forces in Kosovo and Bosnia that taking care of several hundred thousand soldiers in Iraq for a year or more won't be cheap either. Even after the bulk of U.S. forces leave, it's likely that companies like MPRI and DynCorp will be busy training whatever military and police forces arise in a post-Saddam Iraq. But we're getting ahead of ourselves. If war breaks out, employees of private military companies will be tested right next to the soldiers they serve. And unlike the war games at Louisiana's Fort Polk, this time the bullets and bombs will be real.

#### BOX STORY:

**BUSINESS-BOOSTED WARRIOR** Soldiers like this one in Kuwait get more and more backup from private companies.

**INFORMATION TECHNOLOGY** \$ 35 billion awarded to the private sector annually--and growing 10% to 15% a year

**RECRUITING** \$ 171 million to help recruit soldiers in ten states

**TRAINING** \$ 4 billion to train soldiers and run war games

**FOOD/LAUNDRY** KP duty is a memory, and private companies do the wash

**LOGISTICS** \$ 191 million to take over storage and shipping at seven supply depots

#### BOX STORY:

#### PRIVATIZING RYAN

1991 During the Gulf war, there was one contractor for every 100 soldiers.

2002 Today there are ten for every 100.