Mystery at Manas

Strategic Blind Spots in the Department of Defense’s Fuel Contracts in Kyrgyzstan

Report of the Majority Staff

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Subcommittee on National Security and Foreign Affairs
Committee on Oversight and Government Reform
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To the Members of the Subcommittee:

Today I present to you a report entitled, *Mystery at Manas: Strategic Blind Spots in the Department of Defense's Fuel Contracts in Kyrgyzstan*, which has been prepared by the Majority staff of the Subcommittee on National Security and Foreign Affairs of the Committee on Oversight and Government Reform. After an eight-month investigation, the report exposes the troubling circumstances surrounding the Department of Defense’s massive fuel contracts at the Manas Transit Center in Kyrgyzstan.

The report finds that the Department of Defense had a single-minded focus on supplying fuel to support the U.S. mission in Afghanistan but failed to properly oversee the political, diplomatic, and geopolitical collateral consequences of its contracting arrangements. At multiple critical junctures over the past eight years, both the Pentagon and State Department turned a blind eye to glaring red flags in the fuel contracts. Real and perceived corruption in the fuel contracts has now been linked to two revolutions and seriously strained U.S.-Kyrgyz relations.

In June 2010, the Subcommittee Majority staff issued a report entitled *Warlord, Inc.* that exposed corruption and extortion along the U.S. supply chain within Afghanistan. The common theme between *Mystery at Manas* and *Warlord, Inc.* is the Department of Defense’s failure to manage and oversee the significant secondary effects of its wartime logistics contracting in South and Central Asia. The procurement of billions of dollars worth of jet fuel in Central Asia requires vigilant policy-level oversight and a clear-headed awareness of the high risk of corruption. Contracting rules that work in Boston are simply inadequate in Bishkek.

This report offers some realistic recommendations to serve as a catalyst for what would seem to be a much-needed reconsideration of policy. The information contained in the report will inform the Subcommittee and the Congress as a whole as it formulates and oversees Afghanistan and Central Asia policies that serve vital U.S. interests. In turn, the Department of Defense would be well served to take a hard look at this report and consider how it can significantly improve its wartime contracting practices.

Sincerely,

John F. Tierney
Chairman
Subcommittee on National Security and Foreign Affairs
Note on Methodology


To begin the investigation, Chairman Tierney issued document request letters to the Department of Defense, State Department, FBI, and the two affiliated fuel contractors, Mina Corporation and Red Star Enterprises. The Subcommittee received substantial and immediate cooperation from the Defense Logistics Agency-Energy, the contracting agency in charge of the fuel supply, and eventual cooperation from other components of the Department of Defense. The Subcommittee also received requested documents from the FBI. Ultimately, the State Department was able to produce a sizable number of responsive documents, but the slow and disorganized fashion in which the Department responded raises serious questions about the completeness of its document production and its current organizational capacity to respond to congressional inquiries.

The Department of Defense and State Department also produced a significant number of classified documents to the Subcommittee in response to the investigation. Those documents have not been included or referenced in this report. Although issuance of a classified report would have shed additional light on many issues discussed here, the Majority staff believes that inclusion of the classified documents would not have materially changed the Findings or Recommendations.

As discussed at length in the Findings, Mina and Red Star and their principals initially stonewalled the Subcommittee’s investigation but ultimately decided to substantially cooperate after Chairman Edolphus Towns of the Oversight Committee issued subpoenas for documents and testimony. The companies eventually produced over 250,000 pages of documents and two of their three principals agreed to be interviewed.

In August 2010, Subcommittee staff traveled to Kyrgyzstan and the United Kingdom to interview witnesses from the companies, U.S. military officials at Manas, and senior State Department personnel at the U.S. Embassy in Bishkek. In addition, the Subcommittee met with a number of Kyrgyz officials and witnesses. The Kyrgyz Prosecutor General’s office is conducting an ongoing investigation into the allegations of corruption but has been unwilling to share any documents or preliminary results from that investigation with the Subcommittee. The Subcommittee staff also traveled to U.S. Transportation Command headquarters at Scott Air Force Base in Illinois to receive a briefing.

Minority staff have been present at the Subcommittee interviews and received the documents produced in connection with this investigation.
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I. EXECUTIVE SUMMARY

On November 4, 2010, the Defense Logistics Agency-Energy (DLA-Energy), the Department of Defense’s principal fuel contracting arm, awarded Mina Corporation a $600 million contract to supply fuel to the Manas Transit Center in Kyrgyzstan, a critical transport hub for U.S. troops and planes going to Afghanistan. Since 2002, DLA-Energy has awarded Mina and its sister-company, Red Star Enterprises, four such contracts worth $2 billion for fuel at Manas, and has awarded several additional contracts to Red Star for fuel supply to the United States’ Bagram Air Base in Afghanistan. The day after the 2010 contract award, an official from DLA-Energy called the Majority staff of the National Security Subcommittee to ask who owned the companies. The Department of Defense did not know. Despite awarding Mina and Red Star several billion dollars in contracts over the past eight years, the existence of two ongoing investigations into serious allegations of corruption, significant political and diplomatic fallout in Kyrgyzstan, the companies’ unusual behavior and hyper-secrecy, and the U.S. military’s strategic reliance on the fuel that they provide, the U.S. government knew little about who the companies were or how they operated.

Like many of the logistics contracting agencies that support the U.S. war effort in Afghanistan, DLA-Energy has a single-minded focus on providing the warfighters with the goods they need to achieve their mission. Judged by that metric, DLA-Energy’s efforts have been remarkable. The U.S. mission in Afghanistan has required the delivery of billions of gallons of fuel to some of the most remote and hostile locations in the world. Simply stated, without this fuel, the war would come to a grinding halt. But DLA-Energy’s by-the-book focus on performance and price was inadequate for proper strategic oversight of multi-billion dollar fuel contracting in a highly graft-prone region of the world.

Policy officials at the Pentagon and State Department did little to nothing to assist DLA-Energy in oversight of its massive fuel procurement contracts. As long as the flow of fuel met demand, the civilian and military officials at the Department of Defense showed little interest in fuel contracting. The State Department, meanwhile, viewed the fuel contracts as solely a matter for the Pentagon to manage, even when fallout from the contracts badly damaged U.S.-Kyrgyz relations. In short, DLA-Energy, the Pentagon, and State Department all turned a blind eye to the fuel contracts’ serious political, diplomatic, and geopolitical collateral consequences.

In a prime example of the lack of strategic oversight of the fuel contracts, Mina and Red Star set up a complicated arrangement in which Kyrgyz authorities, including two prime ministers, were engaged to issue false official end-user certifications in order to evade a perceived Russian ban on export of fuel for military use. The companies repeatedly told senior officials at DLA-Energy of the arrangements in e-mails and memoranda, but later those officials claimed no recollection of the false certifications and stated that they had not shared that information with...
anyone else in the U.S. government. Consequently, the U.S. Embassy in Bishkek was in the dark about the deception scheme even as it unraveled and Russia closed its fuel spigots and punished Kyrgyzstan with a hefty tariff.

The collateral consequences of the United States’ lack of strategic oversight of its fuel contracting in Central Asia have been significant. Allegations of corruption in the Manas contracts have been linked to two revolutions in Kyrgyzstan and resulted in widespread public perceptions – shared by interim President Rosa Otunbayeva and much of the political elite – that the United States has deliberately and illicitly used the fuel contracts to bribe Kyrgyzstan’s two past presidents. U.S.-Kyrgyz relations are seriously strained by the allegations and President Otunbayeva has raised the issue personally with both President Barack Obama and Secretary of State Hillary Clinton.

Kyrgyz public suspicions of corruption in the fuel contracts are by no means unreasonable. In the first several years of fuel supply to Manas, DLA-Energy directed Mina and Red Star to subcontract exclusively with two companies at Manas, one owned by the son of President Askar Akayev and the other by his son-in-law. President Akayev was ousted in 2005 in a popular revolution under a cloud of corruption and repression. President Akayev’s successor, President Kurmanbek Bakiyev had his son, Maksim Bakiyev, take over much of the Manas airport operations, including the two Akayev-owned fuel subcontractors. President Bakiyev was then ousted in 2010 under a cloud of corruption and repression. In the minds of external observers, it had all the ingredients of a corrupt scheme to payoff the Kyrgyz first families in exchange for their political support to keep the base open.

Despite many of the ingredients for corruption, after a diligent eight-month investigation the Majority staff of the National Security Subcommittee uncovered no credible evidence to support the allegation that President Bakiyev, his family, or affiliates were financially linked to Mina and Red Star. According to the companies’ principals, they had no choice but to work with President Akayev’s family between 2003 and 2005 when they controlled access to the airport. After Akayev’s ouster, however, Mina and Red Star set up their own subcontractors and were ultimately able to avoid the heavy thumb of President Bakiyev and his family. The companies argue that secrecy regarding their operations and ownership was necessary to avoid being the victim of attempted corruption.

Mina and Red Star’s adamant denials of any financial connections to the Bakiyev regime are consistent with the roughly 250,000 pages of documents that they produced to the Subcommittee. Further, neither the Kyrgyz Prosecutor General’s investigation nor a number of inquisitive reporters have presented any evidence that credibly links the fuel contracting companies or their subcontractors to the Bakiyevs. To be clear: the Subcommittee did not
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**Mystery at Manas**

Conduct a forensic audit that would trace every dollar or som ever spent by Mina and Red Star and the Subcommittee did not interview relevant Kyrgyz national personnel who worked for the companies’ primary subcontractors.

Although the investigation uncovered no credible evidence of financial links between the U.S. contractors and the Bakiyevs, the investigation did identify three circumstances that raise serious questions about Mina and Red Star’s activities, particularly given the apparent lack of U.S. government visibility into their operations. First, the companies constructed a scheme to evade ostensible Russian export restrictions by soliciting false certifications from Kyrgyz officials stating that the fuel was for domestic civil consumption. Second, Mina and Red Star effectively precluded competition for the Manas contracts through a concerted effort to monopolize key fuel service providers, including fixed-base operators controlled by the Manas airport authorities. And third, during contentious negotiations over Manas in 2009, Mina and Red Star’s CEO played an important but publicly undisclosed role as an intermediary for back-channel negotiations between Maksim Bakiyev and the Department of Defense.

In addition, Mina and Red Star exhibited a troubling disdain for their responsibilities as a U.S. government contractor in the early stages of the Subcommittee’s investigation. Before substantially cooperating by providing documents and testimony in August 2010, Mina and Red Star attempted to stonewall the inquiry. As discussed at length in Finding 1, the companies and their principals: (1) initially stated that they would rather walk away from their multi-billion dollar fuel contracting empire than publicly reveal their beneficial ownership; (2) agreed to meet in Dubai and then canceled the meeting after congressional staff had arrived there; (3) stated that they would invoke their Fifth Amendment privilege against self-incrimination if compelled to testify; (4) sought a congressional grant of use-immunity for their testimony; and (5) flatly refused to cooperate. Only after congressional subpoenas were issued for corporate documents and individual testimony did they begin to substantially cooperate.

The Majority staff of the Subcommittee on National Security and Foreign Affairs makes the following Findings:

1. **Mina and Red Star have successfully supplied massive amounts of aviation fuel to the U.S. military in Kyrgyzstan and Afghanistan, but the companies operate in a highly secretive manner that often conflicts with U.S. diplomatic interests.** Since 2003, Mina and Red Star have supplied hundreds of millions of gallons of jet fuel to the U.S. military in Kyrgyzstan and Afghanistan and have been widely praised by the Department of Defense for their strong performance and high degree of reliability. The companies operate in an ultra-secretive manner, however, and initially stonewalled the Subcommittee’s investigation. The lack of transparency in the fuel contracts has engendered Kyrgyz public perceptions of corruption at Manas and resulted in seriously strained diplomatic relations.
2. **Mina and Red Star are beneficially owned by a Kyrgyz national and an American citizen with backgrounds in fuel supply at Manas.** Mina and Red Star are beneficially owned by Erkin Bekbolotov and Douglas Edelman (through trusts in the name of Delphine Le Dain, his wife and a French citizen). Mr. Bekbolotov and Mr. Edelman both had a background in fuel trading in Central Asia and fuel supply at Manas International Airport and they employed several key staff with an in-depth understanding of logistics in the region and contracting with the Department of Defense.

3. **From 2003 through 2005, Red Star subcontracted with fixed-base operators at Manas controlled by the family of President Akayev.** After Kyrgyzstan agreed to let the United States establish an air base at Manas International Airport, the two fixed-base operators with a duopoly on supplying aviation fuel at the airport, Manas International Services (MIS) and Aalam, were taken over by President Akayev’s son and son-in-law. DLA-Energy’s contract directed that Red Star and Mina subcontract with the fixed-base operators, and they did so from 2003 to 2005. During and after President Akayev’s ouster, the political opposition in Kyrgyzstan criticized the United States for fueling corruption through its fuel contracts.

4. **Mina and Red Star deny ties to the Bakiyev regime, and the Subcommittee investigation uncovered no credible evidence to link them financially.** Following President Bakiyev’s assumption of power in 2005, Mina and Red Star claim that they made a concerted and eventually successful effort to distance themselves from the fixed-base operators by establishing their own subcontractors and delivering fuel directly to U.S. storage facilities. The companies’ documents are consistent with this account and, while the investigation had limitations, the Subcommittee found no credible evidence to support the allegations that the companies were financially linked to the Bakiyevs. The Subcommittee did not conduct a financial audit of the companies or interview all relevant witnesses, and the investigation identified some circumstances of concern.

5. **Mina and Red Star’s CEO served as an intermediary between Maksim Bakiyev and the U.S. Department of Defense after Russia pressured President Bakiyev to close Manas.** In February 2009, President Bakiyev declared that he would close the Manas Air Base. Six months later, after lengthy negotiations with the United States, he agreed to keep the base open in exchange for increased rental fees and additional aid. During the crisis, Erkin Bekbolotov played a hitherto publicly undisclosed role as an intermediary between Maksim Bakiyev, the President’s son, and the Department of Defense for back-channel negotiations. While Mina had a huge financial incentive to save the base, it is unknown what motivated Maksim Bakiyev to intervene.
6. **DLA-Energy conducted only superficial due diligence on Mina and Red Star, and turned a blind eye to allegations of corruption.** Until recently, DLA-Energy never knew Mina and Red Star’s beneficial ownership and never had any clear visibility into their subcontracting relationships. When the interim government of Kyrgyzstan alleged that Mina and Red Star had corrupt relations with the Bakiyev family, DLA-Energy made no inquiry to determine whether the allegations might be true.

7. **DLA-Energy took few steps to mitigate potential corruption and ignored red flags of anti-competitive behavior.** DLA-Energy had little independent understanding of fuel supply at Manas or in Central Asia and took few steps to mitigate the high potential for corruption in a graft-prone region. When red flags of potentially corrupt or anti-competitive behavior did arise, the agency took no steps to address them.

8. **The Department of Defense failed to oversee a highly sensitive fuel supply arrangement created by Mina and Red Star to disguise their fuel procurement.** For most of the past five years, Mina and Red Star procured a majority of their fuel from refineries in Russia despite a perceived official Russian ban on the export of fuel for military use. Mina and Red Star constructed complex arrangements in which proxy subcontractors obtained certifications from Kyrgyz authorities stating that the fuel was being procured for domestic civil aviation. According to Mina and Red Star, the Russian refineries were aware that the U.S. military was the ultimate end-user of the fuel, and they believed that the Russian export control authorities were also aware because of the large quantity of fuel being procured. Mina and Red Star told DLA-Energy and Pentagon officials about the deception; but, despite extensive memoranda and e-mails documenting the arrangements, senior DLA-Energy officials claimed that they were not aware of the scheme and asserted that there might not have been a Russian ban.

9. **The U.S. Embassy in Bishkek claimed to know little about the Manas fuel supply contracts even after they began to seriously undermine U.S.-Kyrgyz diplomatic relations.** Despite allegations of corruption roiling U.S.-Kyrgyz relations, senior officials at the U.S. Embassy in Bishkek stated that they knew little to nothing about the Manas fuel contracts. In their view, the fuel contracts were the sole responsibility of the Department of Defense even when there were significant diplomatic and geopolitical collateral consequences. As a result, the State Department lacked even the basic facts to help manage tensions when Kyrgyzstan’s interim president alleged that the United States had been illicitly bribing their deposed president and that the perception of corruption at Manas had been a major contributing factor in the 2010 revolution.

10. **The United States’ lack of strategic visibility into the fuel supply at Manas led to over-reliance on Mina and Red Star and an unaddressed vulnerability in the supply chain.** In 2009, asserting national security reasons, DLA-Energy forewent competition
and directly awarded Mina Corporation a $600 million contract to supply fuel at Manas. Mina had become an indispensable contractor. Not only had the company developed a unique fuel supply system that no other contractor could duplicate, but the Department of Defense had little visibility into how the system actually worked. The Department’s extraordinary reliance on a single contractor of unknown ownership and operations was a significant but unidentified strategic vulnerability for the U.S. mission in Afghanistan. At the close of 2010, Russia’s purported attempts to dominate the fuel supply chain present a new risk.

In light of these Findings, the Majority staff of the Subcommittee on National Security and Foreign Affairs makes the following Recommendations:

1. **Conduct a strategic assessment of supply chain vulnerabilities.** The administration should conduct an interagency analysis of the fuel contracts that support the U.S. mission in Afghanistan and the vulnerability of those supplies to disruption and manipulation. This review should focus on: (1) the impact of increased Russian influence over the supply chain, and (2) the U.S. military’s extraordinary reliance on Mina and Red Star for jet fuel.

2. **Establish routine strategic evaluation of war contracts.** The President should direct the National Security Council to establish an interagency working group charged with assessing the strategic impact of wartime contracts. It should be comprised of the relevant national security components of the Executive Branch. This working group should meet on a regular basis to identify vulnerable and strategically consequential contracts and solicitations, and take an active role in the oversight and review of identified contracts.

3. **Engage in diplomatic oversight of the strategic implications of the Manas fuel contracts.** The U.S. Embassy Bishkek should have day-to-day visibility into the fuel contracts and regular communication with relevant Kyrgyz officials, DLA-Energy, OSD policy, and the contractors.

4. **Establish a blue-ribbon panel to consider reform of the Federal Acquisition Regulations (FAR) for wartime.** The President should establish a blue-ribbon panel of experts to formulate legislative and regulatory recommendations designed to reflect the simple truth that federal contracting requirements designed for Kansas are inadequate in Kyrgyzstan. While a wartime FAR would implicate numerous government contract provisions and contract oversight responsibilities, the Majority staff recommends consideration of provisions designed to accomplish the following goals:
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- **Meaningful due diligence obligations for the contracting authority and its prime contractors.** Ability to perform and financial viability are necessary but not sufficient objects of due diligence. Business history, litigation exposure, insurance posture, affiliated companies, and ownership are also important for U.S. contacting authorities to understand in order to make competent judgments about contractors.

- **Transparent ownership information for contractors and subcontractors in vital supply chain contracts.** There are a host of reasons that beneficial ownership interests related to U.S. contractors are critical information to the U.S. government. Debarred and suspended companies, embargoed or sanctioned state entities, strategically manipulative foreign governments, terrorist affiliates, and other unsavory characters could all try to insinuate themselves into lucrative and strategically vital supply chain contracts. The United States has an obligation to know with whom it is conducting business.

- **Subcontractor reach-down audit and information request rights.** The U.S. government should obligate prime U.S. contractors to require subcontractors to consent to giving the prime contractor audit rights upon reasonable notice to its subcontractors. In addition, the U.S. government should include a provision allowing the U.S. government to require, upon request, that the prime contractor invoke the subcontractor audit rights and provide the U.S. government with access to the information in a timely fashion.

- **Routine strategic review of contracts.** In addition to the interagency working group recommended above, a department or agency with a significant wartime contract should make sure the relevant U.S. Embassy country team is aware of the contract and has sufficient information to evaluate its bilateral and geopolitical significance. In turn, U.S. Embassies should have a contract portfolio for strategic evaluation and contract liaison duties.

- **Consent to congressional oversight jurisdiction and “good faith” cooperation in contracts with the U.S. government.** Government contracts are subject to oversight jurisdiction by U.S. Congress under our Constitution and relevant House and Senate rules. It should be of no surprise that individuals and entities that do business with the U.S. government will be subject to congressional inquiry. As such, while being mindful of the right against self-incrimination and other important constitutional rights, the U.S. government should require contractors to consent to U.S. congressional oversight jurisdiction and impose an obligation of “good faith” cooperation in congressional inquiries.
U.S. troops leaving Manas Transit Center after a one-year tour in Afghanistan
Photo Credit: Air Force Staff Sgt. Nathan Bevier
II. BACKGROUND

The Transit Center at Manas: Fueling the War in Afghanistan

As of the end of 2010, there are nearly 100,000 American troops in Afghanistan.\(^1\) Sustaining these forces requires one of the most complex and challenging logistical operations in U.S. military history. Logistics officers must transport thousands of troops in and out of the country every day and oversee a constant flow of supplies to one of the most isolated and hostile regions in the world. Key amongst these commodities is fuel, which the military consumes at higher volumes than any previous American war.\(^2\) Consuming up to 500,000 gallons of TS-1 jet fuel per day,\(^3\) the Transit Center at Manas International Airport in Bishkek, Kyrgyzstan is one of the busiest U.S. Air Force installations in the world.\(^4\)

The Manas Transit Center is operated by the U.S. Air Force’s 376th Air Expeditionary Wing.\(^5\) Every single U.S. soldier and marine must transit through Manas when entering or leaving Afghanistan and the base currently transits an average of 3,500 coalition combat troops per day. Roughly one-third of all fuel delivered over Afghanistan comes from the 376th’s fleet of KC-135 Stratotankers.\(^6\) In addition to troops and fuel, about 13 million pounds of cargo move through the base per month.\(^7\)

These numbers continue to increase and in March 2010 the base transited nearly 50,000 coalition troops and issued more than 12.5 million gallons of jet fuel to planes over Afghanistan.\(^8\) To keep the base operating as the conflict in Afghanistan escalates, airmen of the 376th operate 24 hours a day, seven days a week and manage over a dozen rubberized fuel bladders with a storage capacity of up to 200,000 gallons each.\(^9\)

Paying the Rent and Avoiding Eviction

Pursuant to a status of forces agreement (SOFA) negotiated with Kyrgyzstan, the Air Force began its operations at Manas just two months after the September 11, 2001 terrorist attacks and the subsequent U.S. invasion of Afghanistan. Other coalition countries were then able to sign agreements and deploy troops and equipment to the base. Since 2001, Manas has hosted forces from Australia, Denmark, France, Italy, New Zealand, Norway, South Korea, Spain, and the Netherlands.\(^10\)

In the years since 2001, the U.S. presence at Manas has grown increasingly controversial and has led to several rounds of turbulent negotiations. In 2005, after the overthrow of President Askar Akayev and the takeover of President Kurmanbek Bakiyev, the base faced its first existential threat. In July 2005, President Bakiyev, along with the Presidents of Kazakhstan, Tajikistan, Uzbekistan, China, and Russia signed a declaration calling on the coalition members to declare a date for the end of their use of air bases and other military facilities in Central Asia.\(^11\) Shortly
thereafter, Uzbekistan announced the termination of its basing agreement with the United States, and President Bakiyev followed by demanding that the United States either close the base at Manas or increase the rent from $2 million to $200 million.¹²

A protracted round of negotiations ensued and, in July 2006, an agreement was reached. U.S. officials interpreted the agreement as an increase in its yearly rent from $2 million to $17.4 million for five years and a separate longstanding pledge to provide various other forms of bilateral economic assistance totaling $150 million.¹³ The Bakiyev administration was disappointed that more of the assistance was not provided in cash and that the United States considered programs such as the Peace Corps to be part of the package.¹⁴
In February 2009, during a visit to Moscow to meet with Russian President Dimitri Medvedev, President Bakiyev voiced his frustrations openly and once again stated his determination to expel U.S. forces from Manas. President Bakiyev cited inadequate compensation, public opposition, and the conclusion of counterterrorism operations in Afghanistan as his reasons for the closure. At the same meeting, however, President Medvedev pledged $1.7 billion in aid to Kyrgyzstan for infrastructure and energy investments, and $450 million for budget stabilization, prompting assessments that the aid had been conditioned on the closure of Manas. Both Russian and Kyrgyz officials denied any quid pro quo.\textsuperscript{15} Ten days later, the Kyrgyz legislature voted in support of the closure and the president signed it into law.

In response to President Bakiyev’s announcement, the U.S. State Department began yet another round of base negotiations with the Bakiyev government to extend the use of the base. During the negotiations, President Obama sent a letter to President Bakiyev stressing the importance of Manas, and Afghan President Hamid Karzai urged President Bakiyev to keep the base open when the two leaders met at a Moscow conference.\textsuperscript{16} U.S. efforts to keep the base were ultimately successful and negotiations were concluded on June 24, 2009. The agreement of “mutual benefit” allowed the U.S. to set up “a logistics and transportation hub” at Manas (rather than a “base”)\textsuperscript{17} in exchange for a rent increase from $17.4 million to $60 million per year, and $36 million for infrastructure improvements, $20 million for air traffic control system upgrades, $20 million for economic development, $21 million for counternarcotics, and $10 million for counterterrorism efforts.\textsuperscript{18} These terms continue to govern the U.S. presence at Manas, but there is regular political pressure for the Kyrgyz government to again renegotiate them.

**The Fuel Contracts**

The jet fuel consumed at Manas is procured, transported, stored, and supplied exclusively by private contractors and their subcontractors, who purchase and ship the fuel hundreds of miles from and through various locations throughout Eurasia. Since the base opened in 2001, there have been two principal contractors who have collectively been paid over $1.5 billion for their services under five separate contracts. In November 2010, the sixth contract was signed for an estimated $600 million through the end of 2012.

The contracting process for Manas began almost immediately after the September 11th attacks when DLA-Energy conducted “sole source” negotiations with AvCard, a Maryland-based logistics company, due to the “unusual and compelling urgency” of the fuel requirements in the region. On November 30, 2001, before the Kyrgyz government had even announced its decision to permit the establishment of a U.S. airbase at Manas, DLA-Energy awarded AvCard a one-year fixed price contract to supply 15 million gallons of TS-1 to Manas.\textsuperscript{19} AvCard was awarded a second contract two months later and by 2003 had been paid over $56 million for fuel at Manas.\textsuperscript{20}
In late 2002, DLA-Energy issued another solicitation for the contract under “full and open competition” and received five valid offers including AvCard. Red Star Enterprises, Ltd. received a one-year contract beginning in February 2003 with two one-year options for extension, both of which were eventually exercised through February 2006. Due to the “unusual and compelling urgency” produced by the uncertainty surrounding the U.S. presence at Manas in 2006, however, the contract was amended five times such that it was extended without competition through June 2007. By the time a new contract was awarded in July, DLA-Energy had paid Red Star nearly $510 million under the original 2003 contract.

In April 2007, DLA-Energy began another round of price negotiations for the Manas contract with Red Star and three other bidders. During those negotiations, the owners of Red Star, for reasons examined in this report, shifted their Kyrgyz operations to the corporate identity of Mina Corporation, a company they had also owned since 2004. In June 2007, the incumbent bid submitted by Red Star was awarded to Mina to deliver 156 million gallons of TS-1 to Manas, and, by August 2009, Mina had received over $525 million under the contract for fuel procurement, delivery, and storage.
With the Mina contract set to expire in June, DLA-Energy issued a new solicitation for the Manas fuel contract in February 2009 with “other than full and open competition procedures under the authority of U.S.C 2304(c)(6),” for reasons of national security. The specific security issues were classified as secret due to the sensitive nature of the procurement. In July 2009, Mina once again received a one-year, sole-source contract with two one-year options for extension.

While the July 2009 contract was originally intended to be extended through 2012, a new Kyrgyz interim government took power in April 2010 in the wake of a revolution and immediately began urging U.S. officials to reexamine the contract. In response, DLA-Energy issued a new solicitation on June 9, 2010 rather than exercising the extension options in Mina’s contract.

Despite the Kyrgyz government’s concerns about Mina and the fuel arrangements at Manas, DLA-Energy again awarded Mina the primary fuel contract on November 4, 2010 after a fully competitive round of bidding and negotiations. The new contract requires a minimum of 96 million gallons of TS-1 over the next year at an estimated cost of $315 million with the option for a one-year extension.

In December 2010, Secretary of State Hillary Clinton traveled to Bishkek and announced that the United States would work with the Kyrgyz government to “establish a Kyrgyz entity that can take over part of the base contract.” Kyrgyz officials have publicly suggested that the state-owned enterprise will operate as a joint venture with GazpromNeft, a Russian state-owned fuel supplier. This would be the first time that the United States has contracted with multiple suppliers of jet fuel for Manas.

**Instability and Revolution in Kyrgyzstan**

Following the collapse of the Soviet Union, Askar Akayev became Kyrgyzstan’s first President and initiated a long period of optimism, advocating for an open liberal society and pushing for land reform and privatization. While his rule became increasingly autocratic, Kyrgyzstan remained “the most open, progressive, and cooperative” country in Central Asia as late as 2005. In support of its democratic change, the United States provided almost $800 million to Kyrgyzstan from 1992 to 2004, the third highest per capita amongst the Soviet successor states.

After nearly a decade and a half of peace and relative progress, the February 2005 Kyrgyz national legislative elections ushered in a period of turmoil spurred by widespread allegations of fraud and corruption. Angry Kyrgyz citizens took to the streets, occupying a number of government buildings in the South, and after a second round of voting was held, protests spread throughout the country. On March 24, 2005, thousands of protestors stormed government offices in Bishkek in the Tulip Revolution and forced President Akayev out of office.
That same day, the Kyrgyz Supreme Court declared that the legislature was still duly empowered, allowing the body to appoint opposition figure Kurmanbek Bakiyev as acting prime minister. The next morning he was also named acting president. President Akayev’s ouster became official on April 4th when he resigned and was forced to flee the country with his family, legitimizing Bakiyev’s succession. President Bakiyev publicly pledged to combat the corruption and theft of Kyrgyz investment capital and to continue the country’s close relationship with both the United States and Russia. While President Bakiyev extracted increased aid payments from the United States, the U.S. Air Force remained at Manas throughout his presidency.

According to some commentators, President Bakiyev began following the same model as President Akayev to enrich his family by inserting them into the fuel supply contracts at Manas and using the base as a “get-out-of-jail-free card with the U.S.” In response, multiple opposition parties began unifying to promote a presidential candidate to oppose President Bakiyev in the July 2009 elections. President Bakiyev won the “deeply flawed” election amidst public allegations of corruption and fraud. Nine months later, various opposition groups organized protests to coincide with traditional Kyrgyz assemblies in all of the country’s major cities. President Bakiyev sent police to break up the first protest in the western city of Talas. Battles broke out between demonstrators and the police, and President Bakiyev responded by rounding up opposition leaders.

As the news of the events in Talas spread, angry crowds gathered in Bishkek and stormed the Presidential palace. After two days of protest and violence in which 68 people were killed, over 400 wounded, and stores and government buildings across the city were looted and attacked, police released the opposition leaders. President Bakiyev remained defiant, however, despite being forced into hiding at an unknown location. The opposition leaders quickly assembled in the looted parliament building and organized a transitional interim government led by a former foreign minister, Rosa Otunbayeva, which was able to take control of the country and restore relative calm. On April 20, President Bakiyev and his family fled the country in much the same manner as their predecessors: amidst widespread anti-government protests, violence, and charges of rampant corruption.

Under President Otunbayeva, the interim government remained in office for six months to administer the affairs of state before parliamentary elections were held on October 10, 2010. Three weeks later, the head of the Central Election Commission announced that five parties had won enough votes to enter parliament.

Red Star Contracts at Bagram Air Base in Afghanistan

Since 2003, in addition to Mina and Red Star’s contracts to supply the Manas facilities, Red Star has been the primary provider of jet fuel to Bagram Air Base in Afghanistan. To supply Bagram, Red Star utilized essentially the same sources and supply routes as for its Manas operations,
bringing in fuel from the north by rail and then through Afghanistan by truck. Unlike at Manas however, which still relies on a relatively primitive offload header to receive fuel from supply trucks, Red Star negotiated a Memorandum of Understanding with the U.S. Air Force to construct a pipeline, at Red Star’s expense, to directly supply the Bagram fuel storage facilities. This has essentially institutionalized Red Star’s control over the fuel supply to Bagram, as the past three solicitations have required that offerors obtain access to the pipeline, which is owned and controlled by Red Star.
III. FINDINGS

1. Mina and Red Star Have Successfully Provided Massive Amounts of Aviation Fuel to the U.S. Military in Kyrgyzstan and Afghanistan, but the Companies Operate in a Highly Secretive Manner that Often Conflicts with U.S. Diplomatic Interests.

Finding: Since 2003, Mina and Red Star have supplied hundreds of millions of gallons of jet fuel to the U.S. military in Kyrgyzstan and Afghanistan and have been widely praised by the Department of Defense for their strong performance and high degree of reliability. The companies operate in an ultra-secretive manner, however, and initially stonewalled the Subcommittee’s investigation. The lack of transparency in the fuel contracts has engendered Kyrgyz public perceptions of corruption at Manas and resulted in seriously strained diplomatic relations.

Mina and Red Star are two of the largest suppliers of jet fuel in the world to the Department of Defense. The companies have shipped hundreds of millions of gallons of TS-1 to U.S. bases in Kyrgyzstan and Afghanistan in exchange for over $3 billion in remuneration. As one might imagine, transporting vast quantities of aviation-quality fuel to remote and land-locked countries surrounded by difficult terrain and not-always-friendly governments is a difficult endeavor. Mina and Red Star have been able to perform this task with remarkable reliability despite all variety of natural and political obstacles.

One of the key ingredients to their success, Mina and Red Star claim, is their secrecy. The companies operate entirely out of the public view: they have no website; their listed physical address is a corporate drop-box in Gibraltar; until April, their operations were run out of a second-floor hotel suite at the Hyatt in Bishkek; and their beneficial ownership is buried deep under layers of shell companies formed in countries whose corporate laws are designed to facilitate secrecy and tax avoidance. The Washington Post described the companies as “largely invisible.”
Although the fuel arrangements designed by Mina and Red Star were undeniably sensitive (discussed in detail in Finding 8), the Subcommittee’s investigation revealed that the companies were obsessed with secrecy and that their secrecy ran counter to U.S. diplomatic interests in Kyrgyzstan and the region. Further, the companies’ secrecy created a significant unaddressed strategic vulnerability for the U.S. war effort in Afghanistan.

**Mina and Red Star’s Initial Stonewalling of the Congressional Investigation**

In April 2010, soon after the Subcommittee initiated its investigation, Subcommittee staff met with counsel for Mina and Red Star to discuss their response to Chairman Tierney’s request for documents. At that meeting, the companies’ counsel explained that, for supposed security reasons, the companies would rather walk away from their multi-billion dollar fuel contracting empire than publicly reveal their beneficial ownership. The companies were very clear about the significance of their position: they provided a majority of the jet fuel used by the U.S. military to prosecute its mission in Afghanistan; suddenly shutting down their operations would grind the war to a halt. Further, the fuel supply system was so complex, sensitive, and attenuated that it could take months before alternative suppliers could ever hope to meet the military’s needs.35

After extended negotiations, Chairman Tierney and Ranking Member Jeff Flake agreed by letter to treat any information that the companies shared with the Subcommittee with appropriate sensitivity, and, in exchange, the companies agreed to meet in Dubai – the companies’ new base of operations – for a day-long discussion of their operations.36 Four congressional staff flew to the United Arab Emirates along with half-a-dozen counsel for the companies, the companies’ principals, and a bevy of their consultants. At 10:00 pm the night before the meeting, counsel for the companies called to say that the meeting was canceled and that Mina and Red Star’s principals would exercise their Fifth Amendment right against self-incrimination if compelled to testify.

In July 2010, after still further negotiations to obtain Mina and Red Star’s cooperation broke down, Chairman Edolphus Towns of the full Committee on Oversight and Government Reform issued subpoenas for relevant documents from the companies and personal testimony from Erkin Bekbolotov, Douglas Edelman, and Chuck Squires. Counsel for the companies, Mr.
Findings

Mystery at Manas

Bekbolotov, and Mr. Edelman refused to accept service of the subpoenas, and so the companies were served by mail at their point of corporate registration and the principals were served by multiple email addresses in active use.

Eventually, the companies agreed that they would disclose their ownership and provide documents and that the Subcommittee could interview Mr. Bekbolotov, the companies’ CEO, at a location outside the United States. Chuck Squires, the companies’ director of operations, obtained individual counsel and also agreed to testify. As a part of the arrangement, the Subcommittee staff agreed that it would not seek to physically serve or enforce the subpoena against Mr. Edelman until after interviewing Mr. Bekbolotov and Mr. Squires. Mr. Edelman never agreed to testify and the Majority staff ultimately determined that the benefits of speaking to him were outweighed by the time, expense, and effort necessary to enforce a subpoena against him.37

Backlash in Kyrgyzstan

The companies’ mysterious ownership and operations in a corner of the world known for official corruption engendered public suspicions. Uncontested by the companies or the U.S. government, the Kyrgyz public’s suspicions blossomed into accepted wisdom and finally a call to action.38 In both 2005 and 2010, opposition leaders claimed that allegations of official corruption at Manas were key motives for the overthrow of Presidents Akayev and Bakiyev, respectively.39

When President Akayev was finally forced out of the country in April 2005, the new Kyrgyz Prosecutor General’s office immediately named Red Star’s principal subcontractors in a list of Kyrgyz businesses under government investigation.40 Soon after, the Kyrgyz called upon the U.S. Department of Justice to assist in investigating allegations of President Akayev’s corruption and in tracing assets that may have been the fruit of corrupt activities.41 And in September 2005, the
Kyrgyz Prosecutor General wrote to Secretary of Defense Donald Rumsfeld to complain about the Manas fuel contracts’ lack of transparency, stating that the contracts had “created serious social discontent” in Kyrgyzstan.\textsuperscript{42}

In April 2010, after President Bakiyev was ousted from office in a revolution that left almost 90 citizens dead, interim Kyrgyz President Rosa Otunbayeva announced that the new government would again investigate allegations of corruption between the fuel contractors and the Kyrgyz first family. According to Edil Baisalov, the President’s chief of staff until July 2010, President Otunbayeva and the rest of the interim administration adamantly believed that the United States had deliberately structured the contracts in order to pay off the Bakiyevs for supporting the base.\textsuperscript{43} President Otunbayeva stated: “The corruption is endless. All these dark corners. It is like trying to clean the Augean Stables.”\textsuperscript{44}

According to the \textit{Washington Post}:

When Kyrgyzstan’s authoritarian president, Kurmanbek Bakiyev, was overthrown in April, U.S. officials who rushed to Bishkek to show support for his successor received a tongue-lashing from the new Kyrgyz government, which claimed that opaque jet fuel deals had enriched the deposed regime. Kyrgyzstan has oscillated over whether to kick the Americans off its base, and officials there say the behavior of Red Star and Mina has done nothing to help the U.S. cause.\textsuperscript{45}

In September 2010, at the UN General Assembly annual meeting, President Obama met with President Otunbayeva and the Kyrgyz leader again raised the allegations, demanding that the U.S. government no longer contract with Mina and Red Star. Instead, President Otunbayeva proposed that the United States contract for fuel with a state-owned Kyrgyz enterprise that they would form. She stated that she thought such an arrangement would add transparency and get rid of the middleman so that Kyrgyzstan could reap the profit.\textsuperscript{46}

For their parts, as discussed in Findings 8-10, neither the Department of Defense nor State Department took any meaningful steps to address the allegations of corruption or the Kyrgyz investigation, despite the significant damage that the allegations were having on U.S.-Kyrgyz relations.
2. **Mina and Red Star Are Beneficially Owned by a Kyrgyz National and an American Citizen with Backgrounds in Fuel Supply at Manas.**

**Finding:** Mina and Red Star are beneficially owned by Erkin Bekbolotov and Douglas Edelman (through trusts in the name of Delphine Le Dain, his wife and a French citizen). Mr. Bekbolotov and Mr. Edelman both had a background in fuel trading in Central Asia and fuel supply at Manas International Airport and they employed several key staff with an in-depth understanding of logistics in the region and contracting with the Department of Defense.

In July 2010, after Chairman Towns had issued official subpoenas for their documents and testimony, counsel for the companies and its principals disclosed that Erkin Bekbolotov and Delphine Le Dain, the wife of Douglas Edelman, were the named owners of Mina and Red Star, each with 50 percent. Ms. Le Dain has never had any active role with the companies and, for all practical purposes, it would appear that Mr. Edelman controls the shares and is the *de facto* beneficial owner. Mr. Bekbolotov and Mr. Edelman have been the 50-50 shareholders of the companies since Red Star’s founding in 2002, but their ownership interests are buried under several layers of straw ownership in jurisdictions known for their corporate secrecy. Though many have tried, it is virtually impossible to determine the companies’ beneficial ownership through public records.

**A Background in Fuel Supply**

Prior to September 11, 2001, Mr. Bekbolotov and Mr. Edelman were fuel traders in Kyrgyzstan and Central Asia who did some business at the Manas airport. They originally worked independently, importing and exporting an array of commodities including cotton, tobacco, and some petroleum refined products, before teaming up in 1999 and founding Red Star in 2001.

Erkin Bekbolotov, a Kyrgyz national, was a finance and accounting major at the Kyrgyz University for Architecture and Construction and spent a year on scholarship at Pace University in New York City from 1994 to 1995. According to Mr. Bekbolotov, when he returned to Kyrgyzstan he worked briefly for two different consulting firms to provide market research and educational services for Kyrgyz fuel companies. In late 1996, Mr. Bekbolotov left to work as a
sales associate for the Kyrgyz Petroleum Company, a refinery run as a joint venture between the
Kyrgyz government and a Canadian petroleum company. He rose to general manager and then
in 1998 negotiated the sale of the refinery and left shortly thereafter.51

In late 1998, Mr. Bekbolotov purchased fuel from a company owned by Douglas Edelman.
According to Mr. Bekbolotov, Mr. Edelman had been living in Bishkek since the mid-1990s and
had started a group of companies focused on fuel trading and supply. One of his companies
served as one of several suppliers of jet fuel to the Kyrgyz national airline, which at that time
controlled the Manas International Airport and its fuel facilities. In 1998, Mr. Edelman also
established the American Pub (now called Metro Pub), which quickly became a central social
gathering place for expatriates in Bishkek.52

According to Mr. Bekbolotov, he and Mr. Edelman began working together as business partners
in 1999. Mr. Edelman had connections to a number of local oil refineries and the capital
required for the purchase of large volumes, while Mr. Bekbolotov added his experience with
importing and his local Kyrgyz business connections and knowledge. Shortly after forming their
partnership, Mr. Edelman and Mr. Bekbolotov began supplying a company called Manas Jet
Services that provided fuel for civilian aviation use at the Manas Airport.53

In 2000, Mr. Bekbolotov and Mr. Edelman helped found Manas International Services (MIS)
and created a 40 percent ownership stake in Ms. Le Dain’s name. The remaining 60 percent was
split between three Kyrgyz businessmen. According to Mr. Bekbolotov, he, Mr. Edelman, and
Ms. Le Dain handled the sourcing for Manas Jet Services through MIS which imported the fuel
on credit. Mr. Bekbolotov stated that, in 2001, the three majority partners stripped Ms. Le Dain
of her ownership stake in a “malicious” fashion for failing to make a small mandatory payment at
a shareholder meeting. As the partners wrangled in court over Ms. Le Dain’s ownership interest
in MIS over the next year, Mr. Bekbolotov and Mr. Edelman continued to act as suppliers for
the company, negotiating prices and purchasing fuel on credit from foreign refineries for sale to
MIS.54 In 2001, Mr. Bekbolotov founded Red Star Enterprises, incorporated in Toronto, where
he and his family had relocated.55

When Mr. Bekbolotov and Mr. Edelman learned about the 2002 DLA-Energy solicitation for
a contract to supply the Manas Air Base, they jumped at the opportunity to secure a lucrative
Pentagon contract. In order to do so, they consolidated some of their various operations and
registered a new entity named Red Star Enterprises Ltd. in Gibraltar.56 According to DLA-
Energy documents, the company had an initial estimated net worth of $25 million.57 Red Star
was awarded the contract at the end of 2002 and first began supplying jet fuel to the Air Force in
February 2003.
Key Personnel

Erkin Bekbolotov is a co-founder and beneficial owner of both Mina and Red Star. Until recently, he served as general manager and chief executive officer of the companies. Along with Charles Squires, he had been the principal manager involved in the day-to-day operations of the companies. Mr. Bekbolotov’s primary responsibilities were management of fuel procurement and the companies’ financial hedging against exposure to fuel price fluctuations.

Douglas Edelman is a co-founder and de facto beneficial owner of both Mina and Red Star and serves as a strategic advisor. Mr. Bekbolotov and Mr. Squires stated that Mr. Edelman has no involvement in the day-to-day operations of the companies. He has met on occasion with officials from DLA-Energy and was regularly copied on emails referencing sensitive or problematic issues with the contracts. Mr. Edelman is an American citizen from California but has lived abroad for the past 25 years. He has not traveled to Kyrgyzstan for the past 10 years.

Charles Squires is the director of operations for both Mina and Red Star and is principally responsible for the logistics of transporting, storing, and delivering fuel to Manas and Bagram. He began working for Red Star in August 2003. Mr. Squires retired as a lieutenant colonel from the United States Army after 27 years of service and previously served as the defense attaché to Kyrgyzstan.

Denis Grigoriev became the Chief Executive Officer of Mina and Red Star on July 1, 2010 and took over many of the management responsibilities from Mr. Bekbolotov. He previously served as a commodities trading specialist and “relationship manager” for BNP Paribas in Switzerland where he had handled Mina and Red Star’s accounts.

Anthony Guerne is an independent consultant who served as Mina and Red Star’s chief financial officer until the spring of 2010. He was responsible for the companies’ banking, insurance, and inspections. Prior to joining the companies, Mr. Guerne, like Mr. Grigoriev, spent time at BNP Paribas and worked in commodities trading and banking. He recently left the companies in spring 2010.

International Offices and Affiliated Companies

While both Mina and Red Star are incorporated in Gibraltar, they do not maintain offices there. Currently, Mr. Grigoriev manages the companies from their official headquarters in Dubai. The companies have additional offices in Azerbaijan, Uzbekistan, Turkmenistan, and Afghanistan. Finally, a separate company based in London and also called Mina Corp. handles back office functions such as invoicing.
After President Bakiyev’s ouster in 2005, as discussed in detail in Finding 4, Mina and Red Star helped set up several new companies to serve as subcontractors for fuel supply and operations, including Kyrgyzstan Aviation Services (KAS) and Central Asia Fuels (CAF). Formal ownership of these companies was put in the names of trusted Kyrgyz employees of Mina and Red Star. Mina and Red Star provided the initial capital and operational capability for the proxy companies and were their only clients. The companies state that the subcontractors were specifically established to “distanc[e] Mina and Red Star from entities with connections to the ruling family or regime....” According to the companies, Mina, Red Star, and their affiliated proxy companies have over 400 employees worldwide.

**Red Star Re-brands as Mina Corporation for 2007 Manas Contract**

At the end of the 2007 Manas contract solicitation process, Red Star’s principals decided that the new contract should be assumed under an alternate corporate form, Mina Corporation. Mina was originally created in 2004 as an umbrella structure for a number of operations in Iraq, including a gasoline trading operation and the country’s first daily English language newspaper, and had since become involved in other commodities trading, development, and mining.

The decision to move the Manas fuel contracts to a new corporate entity was based on branding, according to the companies’ officials. In addition to the company’s work at Manas, Red Star had become the sole source fuel provider at Bagram Air Base in Afghanistan in 2004 and had developed a reputation as a U.S. military contractor that could damage its ability to procure fuel from Russia. In addition, Red Star’s name had become “conspicuous” following the allegations of corruption at the end of the Akayev regime.

In 2009, Mr. Bekbolotov was asked to call DLA-Energy to explain the relationship between Mina and Red Star. In an e-mail that followed, he wrote:

Mina Corp. and Red Star are two different legal entities that cooperate in arranging of freight, logistics, supply and certain aspects of management in oil trading.

Both companies share the same management team as far as fuel trading goes. Mina Corp. however employs other management teams that are involved in a broader range of activities.... Mina Corp. was brought in to replace Red Star in Kyrgyzstan due to concerns related to fuel sources from the North, which are well known to [DLA-Energy]. Such concerns were repeated during the phone conversation but we will hold off from putting them in writing in this email.

As discussed in Finding 6, DLA-Energy and the Department of Defense only conducted superficial due diligence and never pierced the veil of secrecy that surrounded the companies.
3. **From 2003 through 2005, Red Star Subcontracted with Fixed-base Operators at Manas Controlled by the Family of President Akayev.**

**Finding:** After Kyrgyzstan agreed to let the United States establish an air base at Manas International Airport, the two fixed-base operators with a duopoly on supplying aviation fuel at the airport, Manas International Services and Aalam, were taken over by President Akayev’s son and son-in-law, respectively. DLA-Energy’s contract directed that Red Star and Mina subcontract with the fixed-base operators, and they did so from 2003 to 2005. During and after President Akayev’s ouster, the political opposition in Kyrgyzstan criticized the United States for fueling corruption through these fuel contracts.

It is not unusual for public airport authorities around the world to closely regulate which companies may supply fuel and fueling services at their facilities. Because the Manas Transit Center is physically sited at the Manas International Airport, the local airport authority was in the unique position of being responsible for regulating the fixed-base operators that U.S. contractors would have to subcontract with for fuel delivery. President Akayev viewed the airport as an opportunity for personal financial gain and took control of both the airport authority and fixed-base operators. The airport authority originally granted only two companies the right to supply fuel: Manas International Services (MIS) and Aalam Services. MIS was controlled by President Akayev’s son, Aydar Akayev. Aalam was controlled by his son-in-law, Adil Toiganbayev.

Due to the airport authority’s restrictions, DLA-Energy’s contract for fuel supply at Manas required its contractors to demonstrate that they would subcontract with an approved fixed-base operator. According to Red Star, it “had no choice except to use these companies as required by DoD.”

Until 2002, Mr. Bekbolotov and Mr. Edelman had actively supplied MIS’s domestic civilian operations at the airport. Once Red Star was awarded the contract, however, MIS quickly switched to another supplier, not wanting Red Star to act as both supplier and buyer. Instead, MIS turned to Omurbek Babanov, a local supplier who had taken over the largest network of gas stations in Kyrgyzstan in 2000. As a result, from 2003 to 2005 Red Star never directly owned the fuel before it became Air Force property. Instead, it subcontracted all operations to MIS, and later Aalam, for procurement of fuel stock, storage, and delivery.
According to Mr. Bekbolotov, MIS struggled almost immediately to keep up with fuel requirements at the base, which at approximately two million gallons per month were relatively modest by 2010 standards. To create a more reliable supply, Red Star eventually subcontracted with Aalam for roughly 30 percent of the supply. Aalam, like MIS, used an independent supplier. As the fuel demands at Manas continued to grow, Red Star increased its subcontracting with Aalam. Red Star reported that, between 2003 and 2005, it paid MIS $87 million and Aalam $32 million for fuel deliveries at Manas.

**Akayev Ousted and Contracts Scrutinized**

As the U.S. military’s demand for fuel at Manas increased, so did public dissatisfaction with President Akayev. “Nothing fueled that discontent so much as the perception that the Akayev’s rule had foundered on massive, near-total corruption.” When President Akayev was finally forced out of the country in March 2005, the new Kyrgyz Prosecutor General’s office immediately named MIS and Aalam in a list of Kyrgyz businesses under government investigation.

After the initiation of its investigation, the Kyrgyz Prosecutor General called upon the U.S. Department of Justice to assist in investigating allegations of President Akayev’s corruption and in tracing assets that may have been the fruit of corrupt activities. The FBI report was subsequently classified, but according to a copy provided to the *New York Times* and NBC News, the FBI found that President Akayev and his family had run a “vast international criminal network that stretched all the way to a series of shell companies in the United States.” Further, according to public reporting, the FBI found that MIS and Aalam Services were controlled by President Akayev’s son and son-in-law, and that the companies “are tied to transactions with arms traffickers, Politically Exposed Persons (PEPs) and a myriad of suspicious U.S. shell companies associated with the Akayev Organization.”

As discussed in Finding 6, DLA-Energy did not take any action to investigate the reports of the Akayev family’s role at the airport and did not request a copy of the FBI report on President Akayev’s corrupt activities.

**Finding:** Following President Bakiyev’s assumption of power in 2005, Mina and Red Star claim that they made a concerted and eventually successful effort to distance themselves from the fixed-base operators by establishing their own subcontractors and delivering fuel directly to U.S. storage facilities. The companies’ documents are consistent with this account and, while the investigation had limitations, the Subcommittee found no credible evidence to support the allegations that the companies were financially linked to the Bakiyevs. The Subcommittee did not conduct a financial audit of the companies or interview all relevant witnesses, and the investigation identified some circumstances of concern.

Following President Akayev’s ouster and exile from Kyrgyzstan, MIS and Aalam were re-nationalized as assets of the Manas airport authority. According to Mr. Bekbolotov, the unraveling of the fixed-base operators created a brief opportunity for Red Star to try and cut out MIS and Aalam from the fuel procurement and delivery. Thus, in 2005, according to the companies, Red Star “helped set up and finance a new independent subcontractor run by local businessmen known to the companies’ personnel and unconnected to any political interest or government official.” The proxy company, Kyrgyz Aviation Services (KAS), was able to lease storage facilities owned by the airport authorities that had formerly been monopolized by Aalam, enabling Mina and Red Star to fully control performance of the contract from procurement to delivery.

According to the companies, the plan was cut short only months later when the Bakiyev family took over control of MIS and Aalam and restored their duopoly at the airport. Red Star again had to use MIS to access Manas. According to Mina and Red Star, MIS subsequently came under the control of Omurbek Babanov, a businessman and politician who had served in the Bakiyev government. Under Babanov’s control, MIS would take on several new names, including Aircraft Petrol Management (APM) and then Aero Fuels Service (AFS). When Red Star’s lease of Aalam’s airport fuel storage facilities expired, the Babanov-led MIS/ACP took over, re-establishing exclusive access to the airport, and, once again, Mina subcontracted with them.
A Way Around the Fixed-base Operators

In early 2007, a local Kyrgyz truck driver bringing fuel onto the base was shot and killed by a U.S. serviceman, causing outrage and creating a serious public relations problem for the base. In order to re-route truck traffic away from the airport flight-line and avert future incidents, the base commander proposed the idea of creating an offloading header along the secure perimeter of the base so that fuel could be delivered directly to the Air Force without first entering the airport. This gave Red Star and KAS the opportunity to circumvent MIS/APM and Aalam’s duopoly at the airport and again establish their own complete supply line. KAS quickly set up the offload header and soon became a full-service subcontractor. MIS/APM and Aalam continued to supply some fuel to Mina and Red Star but were phased out over time.⁷⁸

Additional Proxy Subcontractors

In May 2008, in an effort to fully cut APM out of the picture and regain direct access to the airport and surrounding area to complement the new offload header, Mina financed the founding of another subcontractor for fuel storage, Manas Aero Fuels (MAF). MAF was 50 percent owned by an employee of Mina and Red Star, and 50 percent owned by subsidiaries of Gazprom, the Russian state-owned gas monopoly.⁷⁹ The Department of Defense was apparently unaware that Gazprom was a co-owner of this subcontractor or that Mina and Red Star had played a central role in MAF’s formation.⁸⁰
MAF presented an offer to the airport authorities to outbid MIS/APM and rent the Aalam fuel facilities from the airport authority on Mina’s behalf, as KAS had done briefly after the revolution. MAF offered to pay $400,000 a month, which was substantially greater than the $140,000 per month that MIS/APM had been paying for exclusive rights to the facility, so the airport accepted the offer. A year later in early 2009, Mina floated a second loan to MAF to purchase the storage facilities from the airport authority outright for $7 million. Those facilities now represent 10%-15% of Mina’s total storage capacity in Kyrgyzstan and are the closest railhead to the base.

During this same time period Mina helped establish two more supply companies in addition to KAS: Central Asia Fuels (CAF) and Manas Fuel Service (MFS).

### President Bakiyev Ousted and New Corruption Allegations

In April 2010, only days after President Bakiyev was ousted in a violent revolution, senior officials from the interim government accused the United States of having used an “elaborate payment system ... to curry favor with the ousted president in order to hold onto the air base...” The New York Times reported: “In interviews, the acting prime minister, the president’s chief of staff, a former foreign minister and a former acting president asserted that [Maksim] Bakiyev was the owner of the fuel-supply companies.” Edil Baisalov, the chief of staff to the interim president, stated: “Whatever the Pentagon’s policy of buying warlords in Afghanistan, the state of Kyrgyzstan demands more respect. The government of Kyrgyzstan will not be bought and sold. We are above that.” One month later, the Kyrgyz government announced a formal criminal inquiry into the allegations of corruption at Manas. In August 2010, Subcommittee staff met with the interim Kyrgyz Prosecutor General in Bishkek, but he was unwilling to share the results of his office’s ongoing investigation. He was reportedly dismissed from office weeks later.

Again, as discussed in Finding 6, DLA-Energy and the Department of Defense took no apparent action to investigate the allegations of the Bakiyevs involvement at Manas.
5. **Mina and Red Star’s CEO Served as an Intermediary Between Maksim Bakiyev and the U.S. Department of Defense After Russia Pressured President Bakiyev to Close Manas.**

**Finding:** In February 2009, President Bakiyev declared that he would close the Manas Air Base. Six months later, after lengthy negotiations with the United States, he agreed to keep the base open in exchange for increased rental fees and additional aid. During the crisis, Erkin Bekbolotov played a hitherto publicly undisclosed role as an intermediary between Maksim Bakiyev, the President’s son, and the Department of Defense for back-channel negotiations. While Mina had a huge financial incentive to save the base, it is unknown what motivated Maksim Bakiyev to intervene.

On February 3, 2009, President Bakiyev surprised U.S. officials when he traveled to Moscow and announced at a joint press conference with Russian President Dmitri Medvedev that he planned to expel U.S. forces from the Manas Air Base within six months.\(^{85}\) At the very same press conference, Russia announced $1.7 billion in aid to Kyrgyzstan for infrastructure and energy investments and $450 million in grants and loans. Two weeks later, the Kyrgyz legislature voted overwhelmingly in support of the closure, and the president signed it into law.\(^{86}\)

Despite persistent denials from Russian officials, the press conference prompted widespread speculation that the aid package was a *quid pro quo* payment for President Bakiyev’s expulsion of U.S. forces from the base.\(^{87}\) Secretary of Defense Robert Gates publicly lamented Russian meddling, accusing the government of “working against us in terms of [Manas] which is clearly important to us.”\(^{88}\) A DLA-Energy Pre-Negotiation Briefing Memorandum from the 2009 sole source solicitation noted that, “U.S. officials suspect that Russia, long wary of U.S. presence... is behind the decision to close the base.” Importantly, the document also stated that, “U.S. officials have said they consider the future of Manas still open for negotiations.”\(^{89}\)

**Mina and Maksim Bakiyev’s Participation in the 2009 Base Negotiations**

For several weeks following President Bakiyev’s Moscow press conference, there appeared to be little communication between U.S. and Kyrgyz officials. When the Kyrgyz parliament approved President Bakiyev’s decree, the base’s fate was thought to be sealed.\(^{90}\) To Erkin Bekbolotov and Mina, whose contract was set to expire in June, the closure of Manas would mean the loss of
another opportunity to secure a new lucrative fuel contract to supply the base. According to Mr. Bekbolotov, shortly after President Bakiyev’s announcement, he called the President’s son Maksim Bakiyev, whom he described as a “social acquaintance,” to propose his own idea to save the base.91

In light of Uzbekistan, Kazakhstan, and Russia’s agreements to permit NATO’s use of their territory and airspace to transit non-military goods, Mr. Bekbolotov suggested to Mr. Bakiyev that instead of expelling the United States from Manas, the Bakiyev administration could require the United States to downgrade its status from a military installation to a logistical and transport hub while using the pressure from Russia to substantially increase their rental payments.92 Mr. Bakiyev was receptive to his proposal, and the two men met to discuss details. During their meeting, according to Mr. Bekbolotov, the President’s son told him that the administration could be satisfied with the changing of the base’s status provided that the United States also doubled the yearly rent to $35 million a year and that U.S. military personnel who traveled off of the base were stripped of their diplomatic immunity and right to carry weapons.93

With Mr. Bakiyev’s unofficial blessing, Mr. Bekbolotov e-mailed Mark Iden, Director of Operations for DLA-Energy, on February 19, 2009, and requested a meeting between Mr. Iden, Mr. Bekbolotov, Mr. Edelman, Mr. Squires, and DLA-Energy Director Kim Huntley in order “to discuss the Manas situation including options and solutions for keeping the base.”94 The meeting was delayed for roughly three weeks, but Mr. Iden recalls that, in the meantime, Mr. Bekbolotov called him and outlined the agreement he had brokered with Maksim Bakiyev. According to Mr. Iden, Mr. Bekbolotov sounded as if he had someone with him who was instructing him on what to say. Mr. Iden assumed Mr. Bekbolotov was with a member of the Bakiyev family.95

Just days after Mr. Iden received the call from Mr. Bekbolotov, DLA-Energy issued a non-competitive solicitation to directly award Mina a follow-on contract worth almost $600 million to supply fuel to Manas.96

The Mina and DLA-Energy meeting eventually took place in early March 2009 to further discuss the terms Mr. Bekbolotov had proposed with Maksim Bakiyev. At the meeting, Mark Iden agreed to pass the information to the appropriate policy officials at the Department of Defense.97 Both Mr. Bekbolotov and Mr. Iden recall that there was also discussion during the meeting about the possibility of representatives from either the Joint Staff or U.S. Central Command (CENTCOM) meeting with Maksim Bakiyev to discuss the proposition in locations such as Dubai or a U.S. naval base in Bahrain.98

No such meeting ever took place, but shortly after Mr. Bekbolotov’s discussion with DLA-Energy, he received another call from Maksim Bakiyev. The President’s son informed him that the U.S. Ambassador to Kyrgyzstan, Tatiana Gfoeller, had contacted the Kyrgyz foreign minister and made a proposal largely similar to the one they had outlined to DLA-Energy.99 In the weeks
following, negotiations between U.S. and Kyrgyz officials officially resumed. Nevertheless, according to Mr. Bekbolotov, DLA-Energy suggested that he try and keep the “back-door channels” open in case the negotiations fell apart. Mr. Bekbolotov stated that he continued to act as an unofficial intermediary between DLA-Energy officials and Mr. Bakiyev during the negotiations until June 23 when Kyrgyzstan announced that an agreement had been reached that incorporated some of the key terms that had originally been discussed by Mr. Bekbolotov and Mr. Bakiyev.100

On June 25, 2009, the State Department announced that the United States would operate a “logistics and transportation hub at Manas International Airport. This is to facilitate the transportation of personnel and equipment that are en route to Afghanistan.”101 The agreement also increased U.S. rental payments from $17.4 million to $60 million per month.102 Public sources reported that the United States also pledged more than $36 million for infrastructure improvements, $30 million for air traffic control system upgrades at the airport, $20 million for economic development, $21 million for counternarcotics efforts, and $10 million for counterterrorism.103

As discussed in Finding 10, in November 2010 DLA-Energy directly awarded Mina with a sole-source contract valued at over $600 million.104
Bekbolotov Denies any Business Affiliations With or Loyalties to the Bakiyevs

While Mr. Bekbolotov cooperated with Maksim Bakiyev during the 2009 base negotiations, he adamantly denied that the two men ever had any interactions or transactions related to the fuel contracts. During his interview with Subcommittee staff, Mr. Bekbolotov stated that he acted out of his own business interests and what he believed was best for Kyrgyzstan when he called DLA-Energy on behalf of Mr. Bakiyev regarding the base closure. He stated that he “personally had no business whatsoever with Maxim Bakiyev.” Mr. Bekbolotov stated that he first met Mr. Bakiyev when they were teenagers and that they became “social acquaintances” in their adult years.105

According to Mr. Bekbolotov, the two men had no other contact related to the base other than their phone conversations and the brief meeting to discuss his idea. He insisted that no money was ever exchanged between the two men or between Mr. Bakiyev and Mina or its affiliates. “We didn’t pay anything. We had absolutely no connection in that regard with Maksim Bakiyev or any other Bakiyev.” As for Maksim Bakiyev’s role at the Manas Airport, Mr. Bekbolotov stated that “the airport authority is a government-controlled entity, so it was reporting to the Bakiyev government…. As to specifically Maksim Bakiyev, I am not sure. I have heard different things but I am not sure of his actual involvement.”106

Maksim Bakiyev denied the Subcommittee’s request to be interviewed and it is unknown what motivated him to work with Mr. Bekbolotov to try to save the base.

Finding: Until recently, DLA-Energy never knew Mina and Red Star’s beneficial ownership and never had any clear visibility in to their subcontracting relationships. When the interim government of Kyrgyzstan alleged that Mina and Red Star had corrupt relations with the Bakiyev family, DLA-Energy made no inquiry to determine whether the allegations might be true.

DLA-Energy’s contracting officials tracked Mina and Red Star’s performance with a microscope. They received daily updates regarding the locations and estimated time of arrival of every metric ton of fuel being shipped to Manas and Bagram. When a neighboring country’s rail lines backed up and shipments were delayed, it was all-hands-on-deck to work with the contractors to develop alternative solutions. This single-minded focus on serving the warfighter has resulted in the delivery of over a billion gallons of jet fuel to Kyrgyzstan and Afghanistan with few major interruptions. In the tens of thousands of pages of e-mail correspondence that DLA-Energy provided to the Subcommittee, the Majority staff found that the agency’s officials showed a very high degree of professionalism and integrity.

But for all its focus on contractor performance, DLA-Energy never asked many basic questions about Mina and Red Star and was satisfied with superficial and misleading answers to other questions. Indeed, it was only in November 2010 that DLA-Energy asked who owned the companies. Similarly, when the Subcommittee staff asked DLA-Energy officials to help locate the companies’ physical offices in order to serve subpoenas, they did not know where they were located except for the corporate drop-boxes listed on the contracts. According to one senior official, “[f]rom a procurement standpoint, we don’t need to know foreign ownership.”

While DLA-Energy was familiar with some aspects of Mina and Red Star’s operations, particularly their fuel sources and related sensitivities, the agency had little visibility into the companies’ subcontractors. DLA-Energy officials were not aware that Mina and Red Star had established and effectively controlled KAS and CAF, the contractors’ two principal procurement and service providers. Importantly, DLA-Energy was also unaware that Mina and Red Star had helped to establish MAF, the fuel storage company, with Russian state-controlled Gazprom.
DLA-Energy’s internal e-mail correspondence reflects at least some recognition of the agency’s lack of information regarding one of their largest contractors. When one senior DLA-Energy official requested “more info on Red Star background and history,” another official responded that, “our information is sketchy and what came back from the Dunn and Bradstreet report [an online corporate directory] is as sketchy as what [Red Star] provided during their briefing.”\textsuperscript{109} Despite this apparent unease, DLA-Energy never took any significant steps to collect key background information on the companies.

### Federal Regulations Do Not Require Serious Due Diligence

DLA-Energy’s senior officials’ repeated response to questions regarding why they made little to no inquiry into Mina and Red Star’s ownership or operations was that the Federal Acquisition Regulations (FAR) do not require it. Further, in the view of these officials, the FAR would not allow them to take account of extraneous information like ownership in making contract awards.\textsuperscript{110}

The FAR governs all federal contracting for goods and services. It provides stringent rules for how to conduct contract solicitations in order to maximize transparency, fairness, and competition.\textsuperscript{111} The FAR does require the collection of certain information from contract bidders and that the contracting officer make an affirmative determination that the contractor is “responsible,” meaning capable of performance.\textsuperscript{112} But, the FAR does not specifically require any scrutiny of corporate ownership or affiliations except that offerors must be cross-checked against a federally maintained list of suspended or debarred contractors.\textsuperscript{113} Without obtaining beneficial ownership information, however, any effort to check names against the list would be perfunctory at best.

### Unconcerned by Akayevs’ Role in Fuel Supply

DLA-Energy and the Pentagon were apparently unperturbed by public reports regarding the FBI’s findings that the Manas contracts had financially benefited the Kyrgyz first family. The president of AvCard, the first fuel contractor at Manas from 2001 to 2002, told the \textit{New York Times} that she immediately called DLA-Energy when she became aware that the company’s subcontractors, MIS and Aalam, were connected to President Akayev’s family. In her telling, the contracting officer responded that DLA-Energy was “aware of it from other sources and there really wasn’t anything they could do about it.” The relevant DLA-Energy official could not recall that conversation but stated that she had been aware of the Akayev family connections to the fixed-base operators.\textsuperscript{114}
In response to media reports on the results of the FBI’s investigation into Akayev corruption, including MIS and Aalam, a DLA-Energy’s spokeswoman stated that, “[t]here is nothing per se improper about relatives of a foreign leader having an ownership interest in a company that is a U.S. government contractor or subcontractor.” A Pentagon spokesman similarly responded that, “we are aware of the allegations of the current Kyrgyz government that former Kyrgyz regime leadership may have misappropriated funds from U.S. payments for goods or services.” But, the spokesman added: “Misappropriation of funds is an internal Kyrgyz matter. All DoD contracts for goods and services in Kyrgyzstan were negotiated in accordance with U.S. laws and DoD contracting regulations.”

Senior DLA-Energy officials interviewed by the Subcommittee staff stated that they never asked for or saw a copy of the FBI report and were unfamiliar with its findings, even after the report had been provided to the government of Kyrgyzstan and leaked to major media outlets in the United States.

No Questions After Allegations of Bakiyev Corruption

After President Bakiyev was overthrown in April 2010 and interim President Rosa Otunbayeva announced a criminal investigation into allegations of corruption in the United States’ fuel contracts at Manas, neither DLA-Energy, the Department of Defense, nor the State Department made any inquiry to determine whether the allegations might be true. Indeed, no one from the Executive Branch ever asked Mina or Red Star to provide any explanation of the allegations, their ownership, or operations. Mina and Red Star officials found the U.S. government’s lack of interest in the companies’ views on the allegations surprising.

As in 2005, the Department of Defense saw no problem with the allegations that family members of the president were benefiting from its contracts. “Officials with the military agency that buys fuel, the Defense Energy Supply Corporation, have said no United States laws would be violated if contracts were awarded to companies owned by relatives of a foreign head of state.”

When interviewed in September 2010, five months after the Kyrgyz allegations were made public, the senior DLA-Energy officials responsible for the contract stated that they had made no inquiries to determine whether any of the allegations regarding the Bakiyevs’ involvement in the fuel contracts were true. One DLA-Energy official told the Subcommittee that, “we are not an investigative organization. The contractor was performing. It is not our role to investigate.”
Asked whether DLA-Energy had referred the allegations over to the Department of Defense Inspector General’s office or other investigative entities, the officials responded that they had not. 122
7. **DLA-Energy Took Few Steps to Mitigate Potential Corruption and Ignored Red Flags of Anti-competitive Behavior.**

**Finding:** DLA-Energy had little independent understanding of fuel supply at Manas or in Central Asia and took few steps to mitigate the high potential for corruption in a graft-prone region. When red flags of potentially corrupt or anti-competitive behavior did arise, the agency took no steps to address them.

The leverage points for possible corruption at Manas were easy to spot from the outset of the fuel contract: anytime U.S. contractors had to seek approval from Kyrgyz officials or deal with companies that had been granted exclusive licenses as preferred operators.

**The Joint Stock Company Manas**

The Subcommittee uncovered some evidence that Maksim Bakiyev had formal and informal involvement with the Joint Stock Company Manas International Airport, the governing Manas airport authority. Maksim Bakiyev denied the Subcommittee’s request to interview him and the Subcommittee Majority staff was otherwise unable to verify his alleged airport authority role.

During DLA-Energy’s 2006-07 solicitation for a new fuel contract at Manas, the Joint Stock Company sent DLA-Energy a series of suspicious letters stating that it would need to pre-approve all offerors for the contract. The letters included a lengthy set of criteria by which it would judge each offeror for DLA-Energy’s contract. Never before had the Manas airport authority demanded that U.S. contractors get its approval and meet its criteria to win a contract with the United States. Further, the criteria that the Joint Stock Company established for its approval distinctly favored the incumbent contractor, Red Star Enterprises.
In the first letter from the Joint Stock Company to DLA-Energy, dated April 17, 2006, the president of the airport authority, Egemberdi Myrzabekov, wrote:

As you may know there have been changes in the Kyrgyz Republic and we would like to point out a few important items.

We have heard from various sources that a possible new tender will be announced to supply the US Airforce need at Manas airfield.

As the Manas airport authority and the regulating body we felt it is important for you to understand how we regulate the work in and around the airport.

All companies wishing to participate [in the tender] will require an approval letter from us. We will not issue these approvals unless companies can show that:

1. They have the capacity to secure the fuels.
2. That fuel destined from Russia is not allowed to be used by the US Airforce under the current regulations in place from the Russian governing agency that approves export licenses.
3. That they can show that they have adequate storage capacity in the Kyrgyz Republic that meets at least 2 months of your estimated requirements.
4. That they have agreements with properly licensed Kyrgyz jet fuel operators. At present there are three such operators: Kyrgyz Aero Fuels (KAF), affiliate company of the Manas International Airport, Kyrgyz Aviation Services (KAS) and APM, the former Manas International Services, which is still under criminal investigation by the Prosecutor General and the Financial Inspection/Police related to the investigation of the family of the former President Akayev.
5. That they have approved local facilities (laboratories, licensed fuel trucks, storage capacity).
6. Past history and track record of jet fuel supplies into the Kyrgyz Republic in the quantities required.
7. That they have the proper funds to secure the needed volumes.
8. That they operate under our guidelines for delivery operations in and around the airport.

We wish you to be advised of the needed approvals. The primary reason is that we do not wish to disrupt the current stable supplies and we feel it is our obligation to guarantee that you will be provided with uninterrupted supplies. We will not issue approvals to companies that do not have required experience
and cannot represent a history of jet fuel supplies in the region. We do not wish nor will we approve any entities that do not have an adequate track record and necessary licenses to operate in the Kyrgyz aviation supply industry.124

A second letter from the Joint Stock Company to DLA-Energy dated November 1, 2006 further expanded on this list of requirements necessary to obtain the Joint Stock Company’s approval to operate at Manas: “Participants must not contact Russian state authorities, oil companies and refineries in relation to this supply due to the existing ban and political issues stated above. It is strictly forbidden by the Russian state authorities to use Russian aviation fuel to support military operations.” Finally, the letter stated that it was “sent to you in confidence and must not be shared with any third party without receiving our prior consent.”125

On March 15, 2007 – three weeks before final contract negotiations would begin – DLA-Energy incorporated two additional requirements into its solicitation: (1) each offeror must submit a letter of authorization from the “appropriate airport authorities,” and (2) each offeror must submit commitment letters from the fixed-base operators.126 The agency never contacted the Joint Stock Company directly and subsequent attempts to connect via the U.S. defense attaché failed.

Following the amendment to the contract, the Joint Stock Company sent a third letter to DLA-Energy thanking the agency for the solicitation amendment and reiterating that it must pre-approve all offerors to the agency’s tender.127 The Joint Stock Company’s letter attached a single memorandum of authorization for operations at Manas – for Mina Corporation (Red Star).128 Two of the other three offerors, AvCard and AeroControl, were not able to obtain authorization letters from the Joint Stock Company.129 International Oil Trading Company (IOTC) did provide a commitment letter, but an official at DLA-Energy questioned the authenticity of the letter “because it looks substantially different than the Mina (Red Star) letter…. We believe that Red Star’s letter is authentic.”130

**Red Star Attempted to Lock Down Most Fuel Subcontractors in Kyrgyzstan**

When Red Star submitted its “technical evaluation information sheet” to DLA-Energy for its 2007 contract solicitation, it bragged that it “has a close long-term exclusive relationship with all four major refueling licensed companies in Bishkek: Kyrgyz Aviation Services (KAS), Aalam...”
Service, Aircraft Petrol Management (APM) [formerly, MIS] and Kyrgyz Aero Fuels (KAF).” In other words, Red Star stated that it had a lock on dealings with each of the four fixed-base operators that were authorized to provide fuel services at Manas.

Red Star’s offering document went on to claim that the company had obtained long-term contracts and “exclusive use” of every suitable jet fuel storage facility in Kyrgyzstan, a key contract requirement. These storage facilities included Tokmok, Kant, Shopokova, Manas, and Vostok. Red Star drove the point home:

We would like to draw special attention to the fact that there is very limited storage space available. There are only 2 companies in the country that have large storage space under control: these are Red Star and Gazprom of Russia that recently acquired a chain of service stations around the country and related storage depots that are not equipped for jet fuel storage and that are used exclusively by Gazprom to support their own ground fuel needs. There is in fact no more fuel storage space (neither jet nor ground fuel) available in the country other than that under control and/or ownership of Red Star and [DLA-Energy] is welcome to conduct their own research and findings of these facts.

According to the owner of one key storage facility, Valery Khon, Red Star put enormous pressure on him to lease to them. In an interview with the Subcommittee, he stated that Chuck Squires sent him letters and called him on numerous occasions with very lucrative offers. On one occasion, he stated that he received a call from Omurbek Babanov pressuring him to agree to lease his fuel storage facility to Red Star. Mr. Squires told the Subcommittee staff that he tried hard to do a deal with Mr. Khon to lease his fuel storage facility but that he never engaged Mr. Babanov or anyone else to pressure Mr. Khon. In fact, he insisted that Mr. Babanov had been a bitter and unpleasant rival throughout Mina and Red Star’s operations at Manas.

In a detailed summary and analysis of each offer made during the technical evaluation period, DLA-Energy’s selection team put substantial emphasis on each of the offerors’ ability to provide commitment letters from fuel storage facilities. When AvCard and AeroControl did not include letters of commitment from any of their listed storage companies in their offers, they earned demerits. These same concerns about commitment letters from storage subcontractors were reiterated by a DLA-Energy contracting specialist in the “significant weaknesses” sections of the Debriefing for Unsuccessful Offeror documents that were issued to each of the three unsuccessful companies in late June and early July 2007.

IOTC was able to provide commitment letters for limited storage capacity roughly 50 miles from the airport, but DLA-Energy officials questioned whether the storage was suitable for aviation-grade fuel. Mina, on the other hand, “provided documentation of contracts at five separate locations for a total of 11,500,000 [gallons] to be used as intermediate storage/reserves.”
During the 2007 Manas contract solicitation, no DLA-Energy officials appeared to express any concerns regarding the effects of Mina and Red Star’s long-term, exclusive fuel service contracts on competition. In 2009, as discussed in Finding 9, DLA-Energy dispensed with competition and awarded Mina Corporation a no-bid contract for national security reasons.
8. The Department of Defense Failed to Oversee a Highly Sensitive Fuel Supply Arrangement Created by Mina and Red Star to Disguise their Fuel Procurement.

**Finding:** For most of the past five years, Mina and Red Star procured a majority of their fuel from refineries in Russia despite a perceived official Russian ban on the export of fuel for military use. Mina and Red Star constructed complex arrangements in which proxy subcontractors obtained certifications from Kyrgyz authorities stating that the fuel was being procured for domestic civil aviation. According to Mina and Red Star, the Russian refineries were aware that the U.S. military was the ultimate end-user of the fuel, and they believed that the Russian export control authorities were also aware because of the large quantity of fuel being procured. Mina and Red Star told DLA-Energy and Pentagon officials about the deception; but, despite extensive memoranda and e-mails documenting the arrangements, senior DLA-Energy officials claimed that they were not aware of the scheme and asserted that there might not have been a Russian ban.

Russia is the largest oil producer in the region and, as a legacy of the Soviet Union, virtually all of the rail lines through Central Asia are oriented toward its refineries. Thus, Russia is by far the cheapest and most natural source for jet fuel for American planes stationed in Kyrgyzstan. The alternative routes, shipping fuel from the Mediterranean to the Black Sea to the Caspian Sea and then by train across Central Asia, is much more time consuming and expensive.

**Russian Export Control of Fuel for Military Use**

According to letters from the Russian Federal Agency for Technical and Export Control, Russian law may ban the export of aviation fuel for foreign military use. The agency cites Russian presidential decree number 230, dated February 2, 2004, as adding aviation fuel to a list of “equipment, materials and technologies” that could not be exported for use in creating “rocket weapons” or “weapons of mass destruction.”139 As described below, from 2005 through 2010, Mina and Red Star went to great length to evade this prohibition by obtaining false certifications that the fuel procured by their subcontractors was for civil aviation purposes only.

After April 2010, when Russia effectively ceased all exports of aviation fuel to Mina and Red Star’s subcontractors, the companies’ principals stated that they had never actually seen the Russian presidential decree or policy that they had believed had banned the export of jet
fuel for military purposes. Mr. Bekbolotov told the Subcommittee staff that he had “heard about the [Russian] policy” but had not personally seen it. Similarly, senior Department of Defense officials explained that they never had a definitive interpretation of the Russian export control laws and that “weapon of mass destruction” provision may have been “blown out of proportion.” Regardless, for the majority of 2005 through 2010, both Mina and Red Star and DLA-Energy believed that the ban did preclude the export of Russian jet fuel for the U.S. military.

Mina and Red Star Evade Perceived Russian Bans with False Certifications

In order to evade the perceived Russian ban on the export of fuel for military use, Mina and Red Star imported fuel through proxy subcontractors that obtained official Kyrgyz certifications that the fuel was for domestic civil aviation purposes only. The scheme involved several steps:

- One of Mina and Red Star’s proxy subcontractors would sign a contract for the procurement of a large amount of jet fuel from one of several Russian refineries in Southern Siberia near the Kazakh border. The contract would specify that the fuel was to be exported by the refinery for domestic civil aviation use only.

- In support of the contract, the subcontractors would send a letter to the Kyrgyz Department of Civil Aviation stating that the fuel they planned to import “will be used exclusively for the stated purposes of fueling civil aviation aircraft not associated with the establishment of missile delivery systems for weapons of mass destruction” and would request a letter of guarantee from the agency confirming as much.

- The Kyrgyz Department of Civil Aviation would supply a letter addressed to the Russian Federal Agency for Technical and Export Control stating that the Department confirms that the fuel “delivered from the Russian Federation will be used to fuel civilian aviation aircraft,”
as well as only for the stated peaceful purposes, not associated with the establishment of missile delivery systems for weapons of mass destruction ...

- The Russian refineries would transmit the contract and the certifications to the Russian export control agency for approval.143

- The Russian export control agency would provide the authorization for export of fuel for civil aviation use, confirming that “the fuel to be purchased will only be used solely in stated purposes having no connection to the creation of rocket means of delivery of weapons of mass destruction.”144

According to Mr. Bekbolotov, these arrangements were in place before Red Star began performance on the contract in 2003, and the Kyrgyz authorities’ provision of the false end-use certifications was a “mere documentary exercise.” “It was just being automatically almost done. Everybody knew what was going on … on the one hand, it is a very important matter that would allow for the fuel to come in from Russia. On the other hand, it was not necessarily a big deal, these certifications, because they were being done as a part of a documentary process.”145

Mr. Bekbolotov stated that the Kyrgyz civil aviation authorities agreed to perform this service because they understood that it was necessary for the operation of Manas Transit Center and that Manas was good for the economy and good for the state. Without the certifications of the domestic end-use, Mr. Bekbolotov stated, “there would be no fuel.”146
An Open Secret?

According to Mina and Red Star’s principals, all of the relevant players in the arrangement – the subcontractors, the Kyrgyz Department of Civil Aviation, the Russian refineries, the Russian Federal Agency for Technical and Export Control, and the U.S. Department of Defense – were aware of the fact that the United States military was the ultimate end-user of the Russian fuel.

Mr. Squires stated that the certification scheme was “out of his purview” but that he was familiar with the restrictions and the fact that Mina and Red Star were employing a scheme designed to get around them:

I have never seen the [Russian prohibition] document but I have been told there is a policy. Jet fuel is considered a strategic asset. They have a policy against strategic assets being exported for war purposes. So that’s what this was about, I guess. We got one over on ‘em. I am an old “Cold Warrior.” I’m proud of it, we beat the Russians, and we did it for four or five years. Obviously it was not without their knowledge. If they looked at the volumes, they had to know where this was all going. But they were making money and they were all happy.147

Mr. Bekbolotov stated that GazpromNeft officials were aware that the certifications were false and, by inference, he assumed that the Russian export control agency was similarly aware. He recalled specifically discussing the end-use of the fuel with senior GazpromNeft officials, one of Mina and Red Star’s principal suppliers. Describing one such conversation, he stated:

We all know civil aviation is not buying these volumes. It is obvious, and, you know, we would talk about it. Then absolutely the top people in Gazprom would know about it. Then they would take these certifications that they would receive from the Kyrgyz subcontractors and from the Department of Civil Aviation and take it over to the Federal Agency on Export Control and they would obtain those permissions from the export control agency. This was their job, so they would knowingly go and obtain those permissions for export.148

Mr. Bekbolotov stated that he did not have any personal conversations with Russian export control officials to this effect, however, and he could not specifically recall whether anyone at GazpromNeft had ever told him that they had had such conversations with the Russian export control agency. “I think they had those discussions between Gazprom and the Federal Agency. My impression in response to your question is that the Federal Agency probably knew about the end-user because there were these concerns about the large volumes.”149
Mr. Squires stated that “there was no way [the Russian government] could not know” that the U.S. military was the ultimate consumer of the fuel for the simple fact that the quantities of fuel being exported every month were several times greater than all Kyrgyz civil aviation could use in a year. He noted that, during some months, Manas consumed more fuel than the Moscow airport.\textsuperscript{150}

Mr. Bekbolotov stated that the whole laborious exercise of providing “false end-use guarantees to the Russian authorities was to create political cover for the Kremlin:

\begin{quote}
It was not public knowledge, but if it had become public knowledge then it would be something that Russia wouldn’t be able to handle politically and they would shut it down. They would have to. They would be forced [to] politically. … That’s exactly what happened after this revolution. Gazprom? Boom, they shut off our fuel supplies when it all came out.\textsuperscript{151}
\end{quote}

After working for several years, the false certification scheme to import fuel from Russia began to unravel in the summer and fall of 2009. There were apparently two separate investigations into the end-use of the fuel, one conducted by an investigative committee of the Russian Duma (parliament) and another by the FSB (the Russian domestic intelligence and security service). Following these investigations, Russian fuel supply to Kyrgyzstan was dramatically limited, prompting urgent high-level appeals by senior Kyrgyz officials to their Russian counterparts.\textsuperscript{152}

Ultimately, on April 1, 2010, Russia imposed a substantial tariff on all fuel exports to Kyrgyzstan, reportedly in response to their discovery of Kyrgyzstan’s re-direction of commercial fuel exports for use by the U.S. military. According to Bazarbai Mambetov, a member of the Kyrgyz parliament and the head of the Kyrgyz Oil Traders’ Association, the U.S. military’s receipt of the fuels “outraged Russian officials because it deprived the Kremlin of tax revenue. In retaliation, Russia imposed a tariff of $193.50 per ton on fuel exports to Kyrgyzstan…. The tariff went into effect on April 1, 2010, and had an immediate inflationary impact on the Kyrgyz economy.”\textsuperscript{153} On April 5, 2010 – two days before President Bakiyev was overthrown – EurasiaNet.org reported that the tariff had increased fuel prices by up to 30% and had a tangible and immediate political impact: “the expected rise in prices of basic commodities and products will heighten the anti-Bakiyev mood.”\textsuperscript{154}

\begin{center}
\textbf{The Department of Defense Was Told About False Certifications}
\end{center}

The Department of Defense was well aware that Russia was the principal source of the fuel supply for Kyrgyzstan and Afghanistan from 2005 to 2010 and that the sourcing was highly sensitive. Mr. Bekbolotov and Mr. Squires stated that they met with dozens of officials from the Department of Defense and discussed the sensitivities of the Russian fuel supply and the certification process “in writing, briefings, and verbal discussions.”\textsuperscript{155} Indeed, emails and
memoranda between the companies and DLA-Energy officials clearly reflect that the companies were procuring false certifications from the Kyrgyz government to conceal the end-use of the fuel destined for the U.S. military.

In Red Star’s official offer for the 2006-07 contract solicitation, it explicitly stated that it had “cracked the code” on the Russian fuel supply to Kyrgyzstan and Afghanistan by obtaining official guarantees from Kyrgyz authorities that the “fuel will not be used for military purposes.” In a section of the offer entitled “Sensitive Supply Sources,” Red Star wrote:

Managing supplies to [Manas] is a complex and challenging task, and Red Star has had to be resourceful to meet the U.S. military’s sharply increased demands for jet fuel. As is well known by [DLA-Energy], Central Command and local commanders, it is official policy for one major supply source country to prohibit the sale of jet fuel for military purposes. Red Star has cracked the code on how to circumvent these restrictions, but has also expressed its concerns many times to [DLA-Energy] that opening a tender wherein bidders may turn to “that country” for supplies to fulfill this contract could result in all fuel deliveries from “that country” being blocked, which would make current and projected requirements difficult to fulfill. The process involved in obtaining jet fuel from “that country” is very complicated and took considerable time to develop. Through the development of this sensitive source alone, Red Star has adequately proven its ability to meet the increasing needs of the U.S. Military.

Of a special note is the financial and administrative system that has been put in place to procure fuel from this sensitive source that involves granting of export licenses by that country’s export regulating federal agency to companies registered in the former Soviet countries. It is a two-stage licensing process whereas [sic] companies operating in final countries of destination along with domestic departments of civil aviation under the request/instruction from Red Star send guarantees to “that country’s” federal export regulatory agency that fuel will not be used for military purposes. The regulating agency after review and negotiations issues an export license and informs producers that the license holders can export fuel in quantities approved by the agency. […]
Any company that is serious about meeting the demands of the U.S. Military in Kyrgyzstan needs to have the above system perfectly in order and maintain close relationships with:

1. local companies [...] 
2. departments of civil aviation in countries of destinations, which license the local companies mentioned in this paragraph; 
3. the federal export control agency in the country of fuel origin that issues licenses to final fuel recipients and approvals to producers; 
4. producers in countries of fuel origin in order fuel [sic] and make sure commitments are fulfilled’ 
5. railway authorities of countries of fuel origin, transit countries and countries of destination [...]; 
6. private companies which own private rolling stock [...]; 
7. airport authorities who operate in close coordination with the civil aviation departments and local companies; 
8. various levels of governments themselves in countries of origin and destinations to make sure that there is no intervention and a blind eye on fuel sources from restricted markets.

[...] No other company can currently offer this option and inquiries or attempts by others could severely disrupt fuel supplies to the U.S. Military in Kyrgyzstan and Afghanistan and cause significant material damages.¹⁵⁷

E-mails and memoranda between the contractors and senior DLA-Energy officials further reflect that Mina and Red Star fully informed the contracting agency that they were obtaining false certifications from Kyrgyz authorities to be provided to the Russian export control agency.

In a memorandum from Red Star Enterprises to DLA-Energy dated February 9, 2010, the company detailed the false-certification scheme to evade Russian export controls:

As you have also been well aware, over many years since the beginning of the Afghan operation, fuel procurement from Russia has been effected under a heavily disguised system of non-declaration of the true purpose of the fuel’s eventual use. Under the Russian regulations, jet fuel is considered as one of the strategic products and must always require a special permission from the Federal Agency on Export Control, which had always been obtained via intermediary companies with support of the Departments of Civil Aviation of the consumer countries stating the purpose of fuel as civil requirement. This system remains in place to date and is still as it had always been a way to receive the permits from the Federal...
In interviews with the Subcommittee staff, the two DLA-Energy officials responsible for senior-level oversight of the Manas fuel contracts asserted that they could not recall ever being aware of the false certification scheme and also denied recollection of seeing e-mails or memoranda reflecting such information.159 No internal DLA-Energy or Department of Defense correspondence produced to the Subcommittee ever discussed the false certification scheme or reflected concerns regarding a U.S. contractor engaging a foreign government for such sensitive official acts.

Mina Engaged Two Kyrgyz Prime Ministers for Additional Assistance

In the summer of 2009, following contentious negotiations over the U.S. presence at Manas, the free flow of Russian fuel began to slow and so Mina and Red Star engaged the Kyrgyz prime minister to personally write letters to Russian officials on behalf of the companies. In an e-mail to DLA-Energy officials dated July 22, 2009, Mr. Bekbolotov attached one such letter and further explained its circumstances:

Thank you for the recent opportunity to meet and discuss a number of important things and issues.

Below please see a letter that we discussed in our last meeting, i.e. the Kyrgyz prime-minister writing to Mr. Alexey Miller, the Chairman of GAZPROM Management requesting him to extend his support for export of 13 million gallons of (40,000mt) of jet fuel per month for “The Fuel Needs of Aviation of the Republic” (literal translation).

As you may remember, we discussed Mr. Putin’s deputy’s (Mr. Igor Sechin) recent visit to Kyrgyzstan coinciding with Obama’s visit to Moscow, which was preceded by another Russian delegation consisting of security and FSB officials scrutinizing fuel exports and use. As fuel scrutiny and secret visits were underway, the letter was directed from the PM’s office to GAZPROM (the Russian natural gas monopoly,
which in turn owns an oil subsidiary GAZPROMNEFT that controls a number of key Russian oil refineries supplying jet fuel ultimately to the bases in Kyrgyzstan and Afghanistan.

According to the Kyrgyz [Prime Minister’s] letter, the fuel is needed in the republic for their own aviation needs. The fuel procurement and its use continue to be a highly sensitive issue and the sensitivity is probably at its peak. Never in the past did we need to involve top official government channels for the support of the flow of fuel from Russia. It used to always be handled via private channels only.\textsuperscript{160}

Again, the senior DLA-Energy official addressed in this e-mail did not recall the e-mail or that Mina and Red Star had engaged the Kyrgyz prime minister to falsely certify that the fuel would be used for domestic civil aviation only.\textsuperscript{161} The Subcommittee did not speak to any of the Kyrgyz officials involved in the false certifications and is therefore unable to evaluate their incentives for doing so.
9. **The U.S. Embassy in Bishkek Claimed to Know Little About the Manas Fuel Supply Contracts Even After They Began to Seriously Undermine U.S.-Kyrgyz Diplomatic Relations.**

**Finding:** Despite allegations of corruption roiling U.S.-Kyrgyz relations, senior officials at the U.S. Embassy in Bishkek stated that they knew little to nothing about the Manas fuel contracts. In their view, the fuel contracts were the sole responsibility of the Department of Defense even when there were significant diplomatic and geopolitical collateral consequences. As a result, the State Department lacked even the basic facts to help manage tensions when Kyrgyzstan's interim president alleged that the United States had been illicitly bribing their deposed president and that the perception of corruption at Manas had been a major contributing factor in the 2010 revolution.

As with many of the United States’ bilateral diplomatic relationships in the post-September 11 world, the U.S.-Kyrgyz relationship significantly revolves around Kyrgyzstan's support for U.S. efforts to combat terrorism. Specifically, the number one diplomatic priority for the United States in Kyrgyzstan is to maintain U.S. access to the critical transit hub at Manas. The U.S. Embassy in Bishkek has been deeply engaged in the diplomatic negotiations to keep the U.S. presence at Manas since the fall of 2001. Despite the central importance of the fuel supply to operations at Manas and the diplomatic fallout from the Manas fuel contracts, however, Embassy officials knew little to nothing about the fuel contracts, the contractors, the allegations of corruption, or the sensitive supply chain from Russia.

When interviewed by Subcommittee staff in Bishkek, the current U.S. Ambassador to Kyrgyzstan stated that she was unaware of basic facts about the fuel contract at Manas. When told that U.S. contractors had solicited Kyrgyz officials, up to and including two former prime ministers, to make false representations to Russian authorities to conceal the end-use of millions of gallons of fuel, she appeared to be taken aback. In her view, it was not the Chief-of-Mission’s responsibility to know about the Department of Defense’s fuel supply arrangements at Manas.
The Deputy Chief of Mission appeared equally surprised about the false certifications but took a different view on the Embassy’s lack of knowledge: they should have known more, in retrospect. The U.S. defense attaché, a Department of Defense official working within the Embassy, stated that he was generally aware of the Russian supply sensitivities but was unaware of the false certification scheme.

Within four months of the Subcommittee’s interviews, both President Barack Obama and Secretary of State Hillary Clinton had directly confronted the issues with the fuel contracts in meetings with President Otunbayeva in New York and Bishkek.

The Subcommittee did not interview any officials who were present at the U.S. Embassy in Bishkek during the Akayev regime, but documents from that time suggest that the Embassy was contemporaneously aware of the Akayev family’s ownership interests in the fuel subcontractors. Talking points for the U.S. Ambassador to Kyrgyzstan dated August 2003 stated that MIS and Aalam were the exclusive subcontractors at Manas and that, “it is rumored and widely believed that MIS is connected to President Akayev’s son, and Aalam is connected to his son-in-law.” Senior DLA-Energy officials stated that the American Embassy never communicated any concerns to them regarding potential corruption.

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**Despite the central importance of the fuel supply to operations at Manas and the diplomatic fallout from the fuel contracts, Embassy officials knew little to nothing about the fuel contracts, the contractors, the allegations of corruption, or the sensitive supply chain from Russia.**
10. The United States’ Lack of Strategic Visibility into the Fuel Supply at Manas Led to Over-reliance on Mina and Red Star and an Unaddressed Vulnerability in the Supply Chain.

**Finding:** In 2009, asserting national security reasons, DLA-Energy forewent competition and directly awarded Mina Corporation a $600 million contract to supply fuel at Manas. Mina had become an indispensable contractor. Not only had the company developed a unique fuel supply system that no other contractor could duplicate, but the Department of Defense had little visibility into how the system actually worked. The Department’s extraordinary reliance on a single contractor of unknown ownership and operations was a significant unaddressed strategic vulnerability for the U.S. mission in Afghanistan. At the close of 2010, Russia’s purported attempts to dominate the fuel supply chain present a new risk.

At present, Mina and Red Star provide the majority of all aviation fuel used to support the U.S. war effort in Afghanistan. There are few other contractors that the U.S. military is more dependent on for logistical support. In April 2010, at the outset of the Subcommittee’s investigation, the companies stated that they would rather walk away from their multi-billion dollar fuel contracting empire than publicly reveal their beneficial ownership. Mina and Red Star were fully aware that suddenly shutting down their operations would grind much of the U.S. mission in Afghanistan to a halt. Further, the fuel supply system was so complex, sensitive, and attenuated that it could take months before new suppliers could fill the gap.

While the companies continued to supply fuel to Manas and Bagram, and Mina won a new contract for fuel supply at Manas, the Department of Defense and State Department remained strategically disengaged from its fuel supply challenges.

**2009 No-Bid, Sole-Source Contract for National Security Reasons**

The *sine qua non* of federal contracting is competition. Competition provides the American taxpayer with lower prices, higher quality, and redundancy of capability. The FAR sets a high threshold for when the federal government can award a contract without competition. In the 2009 contract, DLA-Energy justified the lack of competition under 10 U.S.C. § 2304(c)(6) as incorporated in FAR 6.302-6: “Full and open competition need not be provided for when the
disclosure of the agency’s needs would compromise the national security....”168 The agency’s “justification and approval” memorandum for its employment of the national security exception was classified.

Chuck Squires, Mina and Red Star’s director of operations, provided the Subcommittee with his opinion for why DLA-Energy awarded Mina a no-bid, sole-source fuel contract:

We understood that the fuel from Russia was a very sensitive issue and we understood that if it ever came to light publicly they would probably have to turn it off. For [DLA-Energy] to go out and do a new solicitation that would do exactly what we did not want to see and [DLA-Energy] did not want to see and that would be for new competitors to run to the refineries in Russia and say, hey, will you support us in a contract to provide fuel to the air base at Manas. [DLA-Energy] took that information. They went, I assume, to DoD – I don’t know who they discussed it with – and came back and did a sole-source contract…. [T]hat’s how we briefed it to them and they seemed to understand that there were sensitivities and that there would be real issues if they did let out a solicitation.169
The companies’ repeated warnings regarding the sensitivities of the Russian fuel supply were likely true; the system was, after all, predicated on false official end-user certifications. But the Department of Defense made no independent inquiry to quietly investigate these sensitivities for itself. Instead, the Department relied exclusively on Mina and Red Star’s representations that the system could collapse if there was a public solicitation.

DLA-Energy never contacted Department of Defense or State Department officials stationed in Russia to further examine the purported Russian sensitivities. Mr. Squires, a former defense attaché himself, actively dissuaded the handful of Department of Defense attempts to collect more information on Russian restrictions. In response to one defense attaché’s request for “corroboration, contradiction or commentary” on the Russian fuel supply restrictions, Mr. Squires responded:

[I]t is absolutely best to let sleeping dogs lie. That is, everything is working fine with Russia right now – no problems. Only the U.S. side thought there was a problem, so much so that they were ready to send the [defense attaché] in Moscow to discuss – worst mistake in the world, but it was turned off. Until such time as the Russians quit providing fuel, we should all just leave it alone. The more questions are asked, the more the Russians may have to address them, and we do not want that. All is working well and should be left alone.

In November 2010, after Russia had substantially stopped all exports of fuel to Manas, Department of Defense policy officials met with the Subcommittee staff and stated that the supposed Russian restrictions on the fuel supply may not have actually existed and had been “overblown” by the Department. They could not tell the Subcommittee whether Russia had ever actually prohibited the export of jet fuel for military use. In short, the Department had largely relied exclusively on its contractors for information regarding Russian restrictions and sensitivities related to the principal source of jet fuel for the mission in Afghanistan. The Department’s lack of visibility into its fuel supply was a major strategic blind spot.

Without any independent verification of Russian fuel supply sensitivities, DLA-Energy seemingly accepted Mina and Red Star’s view that, “[n]o other company can currently offer [the Russian fuel supply] option and inquiries or attempts by others could severely disrupt fuel supplies to the U.S. Military in Kyrgyzstan and Afghanistan and cause significant material damages.” Of course, it should be noted that Mina and Red Star had a multi-billion dollar financial incentive for the Department of Defense to believe that they were irreplaceable. Mina and Red Star officials told the Subcommittee that they understood Russia to have a policy restricting fuel exports for military purposes but they had never seen the policy and did not know its specific terms or applicability.
Findings

Mystery at Manas

Russian Leverage Over the Fuel Supply

In June 2010, Kyrgyz President Otunbayeva announced that the government would establish the “Fuel Filling Complex Manas,” a state-owned enterprise created to participate in the fuel supply chain to the base.175 The state-owned enterprise would in fact be a joint-venture with Gazprom, the Russian state-controlled fuel behemoth, and President Otunbayeva intended for the company to assume full control of fuel supply for the United States at Manas.176

On September 24, 2010, President Otunbayeva met with President Obama in New York to discuss the future of the Manas Transit Center.177 On the same day, DLA-Energy amended its solicitation for the Manas fuel supply requirements contract to allow for the possibility of having multiple suppliers in order to make room for the joint Kyrgyz-Gazprom venture to provide up to 50 percent of fuel supplies and Gazprom representatives confirmed the company’s intention to participate in the Manas fuel supply.178

In November 2010, the Department of Defense awarded Mina Corp. with a follow-on Manas fuel supply contract, but the contract remained subject to multiple supplier provisions and eliminated Mina’s role as a sole-source provider.179 Then, during a visit to Kyrgyzstan in December, Secretary of State Hillary Clinton announced that the United States would formally agree to allow the Kyrgyz/Gazprom enterprise to supply up to 50 percent of the fuel to Manas.180

Within days of this agreement, however, Mina came under legal pressure from Kyrgyz state authorities that could indicate an attempt to shut it down entirely, thereby making the Kyrgyz/Gazprom joint venture the exclusive supplier to the base. According to Mina and Red Star, political and business interests in Kyrgyzstan are coordinating with Russian interests to shut Mina out of the fuel supply at Manas altogether. On December 10, 2010, the companies claim that the Kyrgyz Prosecutor’s Office attempted to execute a search warrant on their office, a move they viewed as the first step in a ‘Russian-style’ raid to take over their business. Mina’s attorneys were able to forestall the raid, but they believe that, without political protection from the United States, it is only a matter of time before they are run out of business.181 If the companies’ fear comes true, the likely consequence would be that the Kyrgyz-Russian joint venture would control the entire Manas fuel supply.

“Western countries that do not wish to receive Mr. Putin’s ultimatums ... should realize that dependence on Russian gas is not consistent with ‘energy security.’”

-Washington Post
Russia is well known for exploiting its vast fuel supply network as an instrument of national power. In response to Russia stopping fuel supply to Ukraine in the middle of winter and just weeks before a contentious election, the *Washington Post* warned of over-reliance on Russian fuel monopolies:

Western countries should absorb an important lesson. Without a prosperous or technologically advanced economy and with greatly reduced military strength, Mr. Putin hopes to restore Russia’s world-power status through its control of gas. That inevitably means manipulating supplies to other countries for political ends. Western countries that do not wish to receive Mr. Putin’s ultimatums … should realize that dependence on Russian gas is not consistent with “energy security.”

Despite the recent developments that may augur significant Russian leverage over the U.S. supply chain, Mina’s counsel states that the State Department continues to remain disengaged. Following an e-mail from Mina’s counsel to the Embassy pleading for a chance to discuss their belief that the Kyrgyz government was working to shut down their business, the Deputy Chief-of-Mission responded:

As you note in your e-mail, we at the Embassy are certainly interested in this issue going forward. That said, we are not direct participants, either in your contract with DLA, or in your relationship with the Government of Kyrgyzstan. The fact that Mina Corp. is not a U.S. entity also limits our participation.

I would suggest that you keep DLA and the Department of Defense fully up to date regarding this investigation. If you again believe that the Government of Kyrgyzstan is taking action which could threaten the supply of fuel to the Transit Center, or which violates their commitments under the Transit Center agreement, please let me know.

Hours later, after an urgent plea from Mina for a meeting with the Embassy to discuss the developing legal situation, the Deputy Chief-of-Mission wrote that he would “have to ask Washington for instructions in this case.” Mina stated that they never heard back from the Embassy after that. Regardless, the Embassy’s apparent unwillingness to engage with Mina and the Department of Defense in the politics of the fuel contract is surprising given that Secretary Clinton had personally negotiated a fuel supply compromise in Bishkek only weeks earlier. The Deputy Chief-of-Mission’s statement that the Embassy was not a “direct participant … in [Mina’s] relationship with the Government of Kyrgyzstan” reflected an attitude that permeated the United States’ entire approach to fuel contracting in Central Asia.
IV. RECOMMENDATIONS

In light of these Findings, the Majority staff of the Subcommittee on National Security and Foreign Affairs makes the following Recommendations:

1. **Conduct a strategic assessment of supply chain vulnerabilities.** The administration should conduct an interagency analysis of the fuel contracts that support the U.S. mission in Afghanistan and the vulnerability of those supplies to disruption and manipulation. This review should focus on: (1) the impact of increased Russian influence over the supply chain, and (2) the U.S. military’s extraordinary reliance on Mina and Red Star for jet fuel.

2. **Establish routine strategic evaluation of war contracts.** The President should direct the National Security Council to establish an interagency working group charged with assessing the strategic impact of wartime contracts. It should be comprised of the relevant national security components of the Executive Branch. This working group should meet on a regular basis to identify vulnerable and strategically consequential contracts and solicitations, and take an active role in the oversight and review of identified contracts.

3. **Engage in diplomatic oversight of the strategic implications of the Manas fuel contracts.** The U.S. Embassy Bishkek should have day-to-day visibility into the fuel contracts and regular communication with relevant Kyrgyz officials, DLA-Energy, OSD policy, and the contractors.

4. **Establish a blue-ribbon panel to consider reform of the Federal Acquisition Regulations (FAR) for wartime.** The President should establish a blue-ribbon panel of experts to formulate legislative and regulatory recommendations designed to reflect the simple truth that federal contracting requirements designed for Kansas are inadequate in Kyrgyzstan. While a wartime FAR would implicate numerous government contract provisions and contract oversight responsibilities, the Majority staff recommends consideration of provisions designed to accomplish the following goals:

   - **Meaningful due diligence obligations for the contracting authority and its prime contractors.** Ability to perform and financial viability are necessary but not sufficient objects of due diligence. Business history, litigation exposure, insurance posture, affiliated companies, and ownership are also important for U.S. contacting authorities to understand in order to make competent judgments about contractors.
Recommendations

- **Transparent ownership information for contractors and subcontractors in vital supply chain contracts.** There are a host of reasons that beneficial ownership interests related to U.S. contractors are critical information to the U.S. government. Debarred and suspended companies, embargoed or sanctioned state entities, strategically manipulative foreign governments, terrorist affiliates, and other unsavory characters could all try to insinuate themselves into lucrative and strategically vital supply chain contracts. The United States has an obligation to know with whom it is conducting business.

- **Subcontractor reach-down audit and information request rights.** The U.S. government should obligate prime U.S. contractors to require subcontractors to consent to giving the prime contractor audit rights upon reasonable notice to its subcontractors. In addition, the U.S. government should include a provision allowing the U.S. government to require, upon request, that the prime contractor invoke the subcontractor audit rights and provide the U.S. government with access to the information in a timely fashion.

- **Routine strategic review of contracts.** In addition to the interagency working group recommended above, a department or agency with a significant wartime contract should make sure the relevant U.S. Embassy country team is aware of the contract and has sufficient information to evaluate its bilateral and geopolitical significance. In turn, U.S. Embassies should have a contract portfolio for strategic evaluation and contract liaison duties.

- **Consent to congressional oversight jurisdiction and “good faith” cooperation in contracts with the U.S. government.** Government contracts are subject to oversight jurisdiction by U.S. Congress under our Constitution and relevant House and Senate rules. It should be of no surprise that individuals and entities that do business with the U.S. government will be subject to congressional inquiry. As such, while being mindful of the right against self-incrimination and other important constitutional rights, the U.S. government should require contractors to consent to U.S. congressional oversight jurisdiction and impose an obligation of “good faith” cooperation in congressional inquiries.
Endnotes


3 Jim Nichol, Kyrgyzstan and the Status of the U.S. Manas Airbase: Context and Implications, Congressional Research Service (July 1, 2009).


7 Briefing from Col. Dwight Sones, Commander, Transit Center at Manas, to Subcommittee on National Security and Foreign Affairs Staff (Aug. 12, 2010).


11 Jim Nichol, Kyrgyzstan and the Status of the U.S. Manas Airbase: Context and Implications, Congressional Research Service (July 1, 2009).

12 Testimony of Professor Alexander Cooley before the Subcommittee on National Security and Foreign Affairs (Apr. 22, 2010).

13 Jim Nichol, Kyrgyzstan and the Status of the U.S. Manas Airbase: Context and Implications, Congressional Research Service (July 1, 2009).

14 Testimony of Professor Alexander Cooley before the Subcommittee on National Security and Foreign Affairs (Apr. 22, 2010).


18 Jim Nichol, Kyrgyzstan and the Status of the U.S. Manas Airbase: Context and Implications, Congressional Research Service (July 1, 2009).

19 Contract SP0600-02-D-0024, provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.

20 Contract SP0600-02-D-1005, provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.
21 Red Star Canada was used to bid on the 2003 contract but never had any operational responsibility for that contract or any subsequent Department of Defense contract. The operations associated with the Department’s contracts were conducted by the Gibraltar-incorporated Red Star Enterprises Ltd. and Mina Corp. The Canadian-incorporated company has since been liquidated.

22 Contract SP0600-03-D-1000, provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.


28 Testimony of Eugene Huskey before the Subcommittee on National Security and Foreign Affairs (Apr. 22, 2010).

29 Testimony of Eugene Huskey before the Subcommittee on National Security and Foreign Affairs (Apr. 22, 2010).

30 Testimony of Eugene Huskey before the Subcommittee on National Security and Foreign Affairs (Apr. 22, 2010).


32 Ousted Kyrgyz Leader Kurmanbek Bakiyev in Belarus, BBC (Apr. 20, 2010).

33 See Deirdre Tynan, Deconstructing Manas Fuel Suppliers’ Corporate Structures, EurasiaNet.org (Apr. 17, 2010).


35 The Majority staff called the Department of Defense to warn them of the strategic vulnerability of the fuel supply. The Pentagon received the information but did not have any further communications with the Subcommittee regarding the implications of the investigation until October 2010.

36 Letter from William Burck (Weil Gotshal LLP) to Chairman John Tierney (May 17, 2010); Letter from William Burck to Chairman John Tierney (May 19, 2010); Letter from Chairman John Tierney and Ranking Member Jeff Flake to William Burck (May 24, 2010).

37 See E-mail from Eric Bruce (Kobre & Kim LLP) to Scott Lindsay (Majority staff) (Dec. 10, 2010), stating:

1. Mr. Edelman resides outside of the United States and was never personally served with the Congressional subpoena at issue.

2. Mr. Edelman and his counsel believe that service of a Congressional subpoena by email was not proper service, and that they therefore did not have an obligation to respond to the subpoena.

3. In order to avoid unnecessary litigation regarding the lawfulness of service of the subpoena by email, the Subcommittee, the companies, and Mr. Edelman negotiated a resolution in which the two company officials were made available for interviews by the Subcommittee and attorney proffers were also provided on two of the primary issues of interest to the Subcommittee, namely (1) the beneficial ownership of the companies and (2) Douglas Edelman’s role in the companies.


41 Subcommittee staff meeting with U.S. counsel for the government of Kyrgyzstan.


43 Subcommittee staff meeting with Edil Baisalov (Aug. 12, 2010).


47 Counsel for Mr. Edelman proffered that Ms. Le Dain was in fact the beneficial owner of those shares of both Mina and Red Star, but that she had had no involvement with the companies since before 2002. By contrast, Mr. Edelman was listed as an advisor and consultant to the company and was one of the three individuals with regular contact with senior-level DLA-Energy officials. For the Majority staff’s purposes, therefore, we believe that the evidence suggests that Mr. Edelman in fact controls the shares and is the de facto beneficial owner.

48 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

49 See, e.g., Deirdre Tynan, Company at Center of Manas Fuel Probe May Have Ties to Afghan Entities, EurasiaNet.org (May 18, 2010); Andrew Higgins, Kyrgyz Contracts Fly Under the Radar, Washington Post (Nov. 1, 2010).

50 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

51 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

52 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

53 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

54 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

55 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010); additional details submitted by email from William Burck (Weil Gotshal LLP) to Scott Lindsay (Majority staff) (Dec. 14, 2010).

56 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

57 Price Negotiation Summary (Dec. 12, 2002), provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.

58 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010); Subcommittee on National Security and Foreign Affairs Staff, Interview of Chuck Squires (Aug. 17, 2010); Joint Submission by Mina Corp. Ltd. and Red Star Enterprises Ltd. to the Subcommittee on National Security and Foreign Affairs (Oct. 30, 2010).

59 Joint Submission by Mina Corp. Ltd. and Red Star Enterprises Ltd. to the Subcommittee on National Security and Foreign Affairs (Oct. 30, 2010).

60 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

61 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

62 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).
63 E-mail from Erkin Bekbolotov to Kari Archer (Sept. 23, 2009), provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.


65 David S. Cloud, Kyrgyz-U.S. fuel Alliance Draws Inquiry, New York Times (Nov. 15, 2005). Mr. Bekbolotov testified that he was under the impression that President Akayev’s son and son-in-law controlled MIS and Aalam, respectively, but that he was not directly familiar with those companies’ ownership interests. Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).


67 Joint Submission by Mina Corp. Ltd. and Red Star Enterprises Ltd. To the Subcommittee on National Security and Foreign Affairs (Oct. 30, 2010); Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).

68 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010).


72 Subcommittee staff meeting with U.S. counsel for the government of Kyrgyzstan.

73 The basis for the Department of Justice’s classification of the report is unclear given that it was not classified when it was provided to the government of Kyrgyzstan and that the government of Kyrgyzstan provided the report to major American news outlets. The Subcommittee requested and received a classified version of the report from the Department of Justice. The Subcommittee staff’s discussion of the FBI report is based solely on public reporting from 2005 to 06.

74 Aram Roston, A Crooked Alliance in the War on Terror?, NBC News (Oct. 30, 2006).

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76 It was during this period, according to company executives, that Red Star began lobbying the Department of Defense to open a northern supply route to complement the jet fuel supply from Pakistan and allow Red Star to bring in TS-1 Russian-grade fuel to Manas and Bagram from more reliable providers beyond Central Asia. This became particularly important in late 2005 when Kazakhstan stopped permitting the export of jet fuel from its refineries. As the Department of Defense came around to the concept of a northern supply line, Red Star executives claim to have brought in the first gallon of Russian-grade jet fuel to Afghanistan from the North. Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Bekbolotov (Aug. 18, 2010); Joint Submission by Mina Corp. Ltd. and Red Star Enterprises Ltd. to the Subcommittee on National Security and Foreign Affairs (Oct. 30, 2010).

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106 Subcommittee on National Security and Foreign Affairs Staff, Interview of Erkin Mr. Bekbolotov (Aug. 18, 2010).

107 Subcommittee on National Security and Foreign Affairs Staff, Interview of Kathryn Fantasia (Sept. 24, 2010).

108 Subcommittee on National Security and Foreign Affairs Staff, Interview of Kathryn Fantasia (Sept. 24, 2010); Subcommittee on National Security and Foreign Affairs Staff, Interview of Mark Iden (Sept. 28, 2010).

109 Email from Kathryn Fantasia to John Bartenhagen (Feb. 8, 2007), provided to the Subcommittee on National Security and Foreign Affairs by the Department of Defense.

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111 48 C.F.R. §§ 1 et seq.

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