

**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

October 15, 2003

The Honorable Joshua Bolten  
Director  
Office of Management and Budget  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Mr. Bolten:

On September 12, 2003, we wrote to you about the Bush Administration's request for an additional \$2.1 billion in oil reconstruction funds for Iraq. Because this new request nearly tripled the Administration's previous estimate of the costs of restoring Iraq's oil production — and because it was prepared without consultation with the Corps of Engineers, the agency in charge of oil reconstruction — we asked for an explanation for this unexpected cost increase. You have not responded to this simple inquiry.

The largest component of the \$2.1 billion supplemental request is a request for \$900 million to import petroleum products into Iraq. Since we are concerned that Halliburton, which holds the contract to import fuel, has charged American taxpayers extraordinarily high prices, we wanted to give you an opportunity to explain the request. Your refusal to address the issue is completely unacceptable.

From the facts available to us, Halliburton seems to be inflating gasoline prices at a great cost to American taxpayers. The overcharging by Halliburton is so extreme that one expert has privately called it "highway robbery."

The U.S. Army Corps of Engineers has informed us that as of September 18, 2003, the United States had paid Halliburton over \$300 million to import approximately 190 million gallons of gasoline into Iraq. This means that on a per-gallon basis, Halliburton charged the United States an average price of \$1.59 per gallon to import gasoline into Iraq. This price does not include Halliburton's additional fee of 2% to 7%, which increases the cost to the taxpayer to \$1.62 to \$1.70 per gallon.

Independent experts that we consulted have been appalled to learn that the U.S. government has paid Halliburton \$1.62 to \$1.70 to import gasoline into Iraq. According to these experts, the price that Halliburton is charging for gasoline is "outrageously high," potentially "a huge ripoff," and "highway robbery." During the relevant period, the average wholesale cost of gasoline in the Mideast was around 71 cents per gallon, meaning that Halliburton was charging over 90 cents per gallon just to transport the fuel into Iraq. According to the experts, such an exorbitant transportation charge is inflated many times over.

Compounding the costs to the taxpayer, this expensive gasoline is then sold to Iraqis at a price of just 4 to 15 cents per gallon. Although Iraq has the second largest oil reserves in the world, the U.S. taxpayer is, in effect, subsidizing over 90% of the cost of gasoline sold in Iraq.

In light of this evidence of overcharging, we renew our request for an immediate accounting of the Bush Administration's \$2.1 billion request for additional Iraq oil reconstruction funds, including the process by which the Administration developed this new estimate. We also request that you provide copies of all contracts, task orders, invoices, and related documents issued to date regarding Halliburton's work in Iraq so Congress can conduct its own independent investigation of these issues on behalf of the U.S. taxpayer.

The rest of this letter explains our concerns in more detail.

### **Halliburton's Prices**

On March 8, 2003, the Defense Department entered into a secret, no-bid contract with Halliburton subsidiary Kellogg, Brown & Root (KBR). On April 8, 2003, the Administration disclosed that this contract had a potential value of up to \$7 billion.<sup>1</sup> After repeated suggestions that the contract was limited to fighting oil fires and carrying out related repairs, the Defense Department revealed on May 2, 2003, that the contract was considerably broader in scope and extended to operating oil facilities and distributing fuel.<sup>2</sup> To date, the Corps has already awarded Halliburton task orders worth \$1.4 billion under this contract.<sup>3</sup> Combined with task orders issued to Halliburton under a separate contract with the Army, called the Logistics Civil Augmentation

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<sup>1</sup> Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (Apr. 8, 2003).

<sup>2</sup> Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (May 2, 2003).

<sup>3</sup> U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom (March 2003 Contract Obligation Status)* (Sept. 30, 2003) (online at [www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm](http://www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm)). The task orders consist of: \$10.7 million to train and advise for safe shutdown, oil spill equipment repositioning and damage assessment; \$1.5 million to design for quick repair of oil facilities; \$769.3 million for damage assessment, fire fighting and repairs; \$46.3 million for base camp facilities and life support; and \$562.4 million to preserve distribution capability and fuel distribution support.

Program (LOGCAP), Halliburton has received over \$3 billion in task orders relating to the war and reconstruction in Iraq.<sup>4</sup>

A significant component of Halliburton's work under the sole-source oil contract has been to import gasoline and other petroleum products, such as liquid petroleum gasoline (used for cooking) and kerosene, into Iraq. As of September 18, Halliburton had received task orders worth \$378,931,314 to import these products into Iraq.<sup>5</sup> Of this amount, Halliburton was paid \$304,486,577 to import 191,965,150 gallons of gasoline into Iraq.<sup>6</sup> On a per-gallon basis, Halliburton charged the U.S. government an average price of \$1.59 per gallon to import gasoline.

This amount does not include Halliburton's "profits," which are calculated separately.<sup>7</sup> Because the Administration agreed to a "cost-plus" contract, the government reimburses Halliburton for its costs and then provides an additional award of between 2% and 7%.<sup>8</sup> When this additional award is taken into account, the cost to the taxpayer increases to \$1.62 to \$1.70 per gallon.

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<sup>4</sup> Telephone conversation between Bill Turnis, U.S. Army Field Support Command, and Minority Staff, Committee on Government Reform (Oct. 15, 2003) (stating that the current value of task orders issued under LOGCAP is \$2.2 billion). *See also Cheney, Halliburton Ties Facing More Questions*, Modesto Bee (Oct. 14, 2003) (citing \$1.7 billion awarded under the LOGCAP contract for work in Iraq).

<sup>5</sup> E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Sept. 23, 2003).

<sup>6</sup> E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Sept. 23, 2003). According to the e-mail, 727,140,721 liters of gasoline had been delivered as of September 18, 2003. At a conversion rate of 0.264 gallons per liter (or 3.785 liters per gallon), the total number of gallons is 191,965,150. The Corps of Engineers also reported that they calculated the cost of \$304,486,577 by assuming a conversion rate of 1,500 Iraqi dinars per U.S. dollar.

<sup>7</sup> U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom (USACE Missions — Oil Fire Suppression and Restoration of Production)* (Oct. 3, 2003) (online at [www.hq.usace.army.mil/cepa/iraq/faq.htm](http://www.hq.usace.army.mil/cepa/iraq/faq.htm)) ("It is an Indefinite Delivery/Indefinite Quantity, cost-plus type contract. The government reimburses the contractor for its actual cost, plus a fee that is based on the performance of the contractor").

<sup>8</sup> *Id.* ("The contractor is guaranteed a fee of two percent and can make a maximum of seven percent, depending on performance").

### **The Assessment of Independent Experts**

The prices charged by Halliburton far exceed the cost of purchasing gasoline in the Mideast. According to the Congressional Research Service, the average price for “Arab Gulf” gasoline in the Middle East was about 71 cents per gallon between April and September.<sup>9</sup> This 71 cents represents the reasonable cost during this period of purchasing a gallon of gasoline in Kuwait or another nearby country for import to Iraq.

The difference between this 71 cents per-gallon fuel cost and the \$1.62 to \$1.70 per-gallon price Halliburton charged the U.S. government is 91 to 99 cents per gallon. In effect, the difference represents how much Halliburton is being paid to transport gasoline into Iraq. According to the experts we consulted, this transportation cost is simply indefensible.

The distance between Kuwait and Baghdad is less than 400 miles. One expert we consulted said that under ordinary conditions, it should be possible to transport gasoline into Iraq for costs ranging from 15 to 25 cents per gallon.<sup>10</sup> Another expert said that it might be possible to transport gasoline into Iraq for as little as 10 cents per gallon.<sup>11</sup> In either case, Halliburton’s charges are at least three times — and possibly as much as ten times — higher than this.

Obviously, the security situation is challenging in Iraq. It is our understanding, however, that the U.S. military provides security for fuel convoys traveling through Iraq. Thus, this cost is being borne largely by the military, not Halliburton. Distribution costs inside Iraq also appear unlikely to explain the magnitude of the fee that Halliburton is charging. It is our understanding that Halliburton delivers most of the gasoline to central depots in Baghdad, Mosul, and other centralized locations. It is the Iraqi Oil Ministry — not Halliburton — that handles the delivery of gasoline to service stations and consumers.

Experts that our staff have consulted have called these charges exorbitant. One of the leading oil economists in the country is Philip Verleger, the president of PKVerleger LLC, a firm

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<sup>9</sup> Congressional Research Service, *Gasoline Prices in the Persian Gulf* (Oct. 14, 2003) (surveying Platts Global Energy’s *Oilgram Price Report* for the average sales price of “Arab Gulf” gasoline between the fall of Baghdad on April 9, 2003, and the last date for which the Army Corps of Engineers provided information, September 18, 2003).

<sup>10</sup> Telephone conversation between Gordon Schremp, Senior Fuels Specialist, California Energy Commission, and Minority Staff, House Committee on Government Reform (Oct. 14, 2003) (assuming 400 miles between Kuwait and Baghdad).

<sup>11</sup> Telephone conversation between Philip K. Verleger, Jr., President, PKVerleger LLC and Principal, Brattle Group, and Minority Staff, House Committee on Government Reform (Oct. 10, 2003).

specializing in analyzing energy markets. Mr. Verleger said that if the figures from the Corps of Engineers are accurate, Halliburton's prices are "outrageously high" and potentially "a huge ripoff" to taxpayers. He also said Halliburton could be guilty of "price gouging."<sup>12</sup>

Other experts, including individuals with detailed knowledge of Iraq's oil markets, expressed similar views, although they asked that their identities not be revealed. One said: "There is no way on earth Halliburton should be buying gas for 80 cents and selling it for \$1.70 — that's highway robbery." Another expert told us that when SOMO, the Iraqi oil company, bought gasoline through an exchange for crude oil, it was able to acquire the gasoline at a price at least 50 cents per gallon less than the price Halliburton charged the United States.

### **The Sale of Gasoline to Iraqis**

The final step in the process is the distribution and sale of the gasoline Halliburton imports to Iraqis. Here, too, the taxpayer gets hit hard.

The price at which the gasoline imported by Halliburton is sold to Iraqis is just 4 to 15 cents per gallon.<sup>13</sup> In fact, it is not clear that the United States receives even this 4 to 15 cents per gallon or whether these amounts go straight to the Iraqi Oil Ministry. Either way, the effect is the same: the U.S. taxpayer is heavily subsidizing the price of gasoline in Iraq.

Although Iraq is an oil-rich nation, the Administration has apparently made a policy decision that the U.S. taxpayer — not the Iraqi consumer — should pay cost of the gasoline that Iraqi citizens and companies consume. As a result, the U.S. taxpayer loses \$1.50 or more every time a gallon of gasoline is sold in Iraq.

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<sup>12</sup> *Id.*

<sup>13</sup> Interviews of Iraqi Governing Council Members Sondul Chapouk and Judge Wael Abdul Latif (Sept. 23, 2003). *See also Iraq Fuel Distribution New U.S. Priority*, United Press International (Aug. 12, 2003) ("Iraqis . . . pay 20 Iraqi dinars per liter in government-run gas stations, down from 50 dinars a month ago. The Iraqi dinar trades at about 1,500 to a U.S. dollar, so gas costs less than 2 cents a liter [or 5 cents per gallon]"); *Iraqis, Sitting on Massive Oil Reserves, Suffer Giant Petrol Queues*, Agence France Presse (Aug. 13, 2003) (citing an official price of 20 dinars per liter, or 4.3 cents per gallon, assuming 1,750 dinars per dollar); *Middle East Economic Survey*, v.XLVI, n.3 (Jan. 20, 2003) (citing 20 cents per 10 liters, or 7.6 cents per gallon).

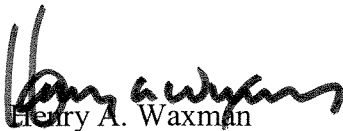
### Conclusion

A major problem underlying this entire issue is the Bush Administration's complete lack of transparency. On September 12, 2003, we wrote to you asking for a justification for President Bush's request for an additional \$2.1 billion for Iraqi oil infrastructure and production contracts. Rep. Waxman then wrote again on September 30, 2003, asking for explanations regarding numerous examples of inflated costs throughout the contracting process in Iraq. To date, however, we have received no response from you.

We may agree or disagree on the merits of the Administration's supplemental spending request or the reasonableness of Halliburton's charges. But at a minimum, Congress should know the facts and get its questions answered. Without disclosure of the costs of these contracts, there can be no independent oversight to keep the costs in check.

We urge you to answer our previous letters and provide our staff with access to all contracts, task orders, invoices, and other relevant documents relating to Halliburton's taxpayer-funded work in Iraq.

Sincerely,



Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform



John D. Dingell  
Ranking Minority Member  
Committee on Energy and Commerce