

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

December 10, 2003

The Honorable Condoleezza Rice
Assistant to the President for National Security Affairs
The White House
Washington, DC 20500

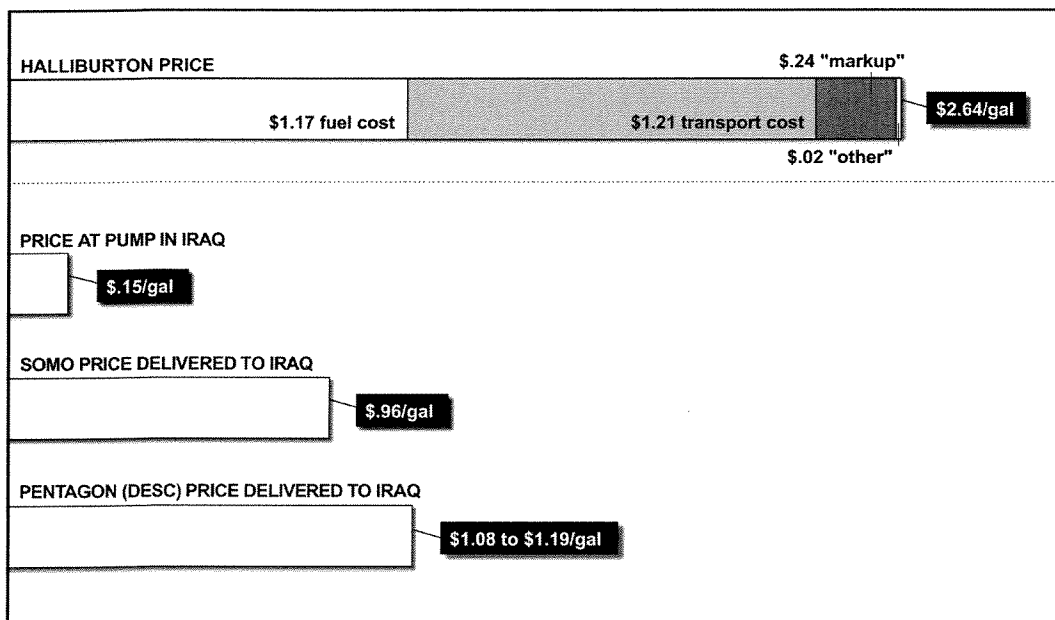
Dear Ms. Rice:

On October 29, we wrote to you seeking an explanation for the high prices Halliburton is charging to import gasoline from Kuwait into Iraq. To date, we have received no response. We are writing now to bring new information to your attention.

In our previous letter, we expressed concern that Halliburton had been paid an average price of \$2.64 per gallon to import millions of gallons of gasoline from Kuwait into Iraq. This price is more than double what others have paid to import gasoline into Iraq. Independent experts we consulted called these charges a “huge ripoff” of the taxpayer.

Recently, we received a breakdown of Halliburton’s \$2.64 price from the Army Corps of Engineers. This breakdown, along with other relevant prices, is depicted in Figure 1.

Figure 1. Prices of Gasoline Imported from Kuwait into Iraq



As itemized by the Corps, every element of Halliburton’s pricing raises serious questions:

- **The Cost of Gasoline in Kuwait:** The nonpartisan Congressional Research Service has reported that the average wholesale cost of gasoline in the Mideast was just \$0.71 per gallon during the period that Halliburton was paying \$1.17 per gallon. We have not received an explanation for why Halliburton was paying \$0.46 more per gallon than the published wholesale price.
- **The Cost of Transportation from Kuwait into Iraq:** Paying \$1.21 per gallon to transport gasoline 400 miles from Kuwait to Iraq seems astounding. According to the data from the Corps, Halliburton is able to transport gasoline into Iraq from Turkey for just \$0.22 per gallon. The Administration has not explained why it costs more than five times this amount to transport gasoline from Kuwait. Nor has the Administration explained why both the state-owned Iraqi oil company, SOMO, and the Pentagon's own Defense Energy Support Center can transport gasoline from Kuwait at just a fraction of the price Halliburton is charging.
- **Halliburton's "Markup":** The \$0.24 per-gallon "markup" fee is paid directly to Halliburton, as is the \$0.02 "other" charge. Halliburton's role in the actual fuel importation is limited, however. Essentially, Halliburton's function is to hire an "integrator" as a subcontractor to purchase the gasoline in Kuwait and transport it into Iraq. It is difficult to understand how this justifies an additional \$0.26 per gallon charge on millions of gallons of gasoline.

We do not understand the White House's seeming indifference to this evidence of overcharging, nor why the White House has not responded to our previous letters. With potentially hundreds of millions of taxpayer dollars at stake, we believe this matter deserves immediate attention.

The New Information

On October 29, we wrote to you expressing our concern that Halliburton was charging an average price of \$2.64 per gallon to import gasoline from Kuwait into Iraq.¹ We based this figure on information provided by the Army Corps showing that, as of October 19, approximately 61 million gallons of gasoline had been imported from Kuwait at a cost of over \$162 million.²

¹ Letter from Reps. Henry A. Waxman and John D. Dingell to National Security Advisor Condoleezza Rice (Oct. 29, 2003). In the October 29 letter, we calculated this price to be \$2.65 per gallon, based on information provided by the Army Corps. The Corps has since informed us that the actual price was \$2.64 per gallon.

² E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Oct. 21, 2003).

On November 17, the minority staff of the Government Reform Committee received a briefing from the Army Corps of Engineers and the Coalition Provisional Authority (CPA) that provided new details about the per-gallon cost of gasoline imported from Kuwait. According to the Corps, the cost is \$2.64 per gallon to import gasoline from Kuwait to Iraq. This \$2.64 price was broken down into the components depicted in Figure 2.

Figure 2. The Cost of Gasoline Imported from Kuwait

Fuel	\$1.17 / gal
Transport	\$1.21 / gal
Other	\$0.02 / gal
Markups	\$0.24 / gal
	<hr/>
	\$2.64 / gal

According to the Corps, Halliburton's primary responsibility in the import of gasoline to Iraq is to hire an "integrator" as a subcontractor. It is this subcontractor's responsibility to arrange for the actual purchase of the gasoline in Kuwait and its transport to depots in Baghdad. The subcontractor is paid the \$1.17 per gallon fuel cost and the \$1.21 per gallon transportation cost. According to the Corps, Halliburton receives the \$0.24 per gallon "markup" charge as well as the \$0.02 per gallon "other" charge.

The Corps said that the subcontractor hired by Halliburton was a Kuwaiti company called Altanmia Commercial Marketing Company. The Corps also mentioned a second subcontractor, KEC, but could not recall what these initials signified. According to information we have received from other sources, the current subcontract is held by the Kuwait Establishment Company, but we have been unable to find information about this company to date.

In addition to the prices charged to import gasoline from Kuwait, we also received the breakdown of the prices Halliburton is charging to import gasoline from Turkey. These prices, which are shown in Figure 3, were substantially lower across-the-board.

Figure 3. The Cost of Gasoline Imported from Turkey

Fuel	\$0.89 / gal
Transport	\$0.22 / gal
Other	\$0.02 / gal
Markups	\$0.11 / gal
	<hr/>
	\$1.24 / gal

Recently, we have received additional information from the Corps updating the costs of importing gasoline from Kuwait to Iraq. This new data shows that costs actually may have risen. This latest information, dated November 23, 2003, indicates that Halliburton has now imported a total of 73.7 million gallons of gasoline from Kuwait at a cost of \$200.3 million.³ When this new data is compared to the previous data we referenced in our first letter, it appears that 12.4 million gallons of gasoline have been imported from Kuwait between October 19 and November 23 at a cost of \$37.8 million.⁴ If this information is accurate, this is an average price of about \$3.06 per gallon for these most recent gasoline imports. For the entire 73.7 million gallons of gasoline imported from Kuwait to date, the average price is \$2.72 per gallon.

This new information raises a host of serious issues, which are discussed below.

³ E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Nov. 26, 2003).

⁴ On October 21, the Army Corps sent minority staff an e-mail reporting that, as of October 19, Halliburton had been paid \$162,503,305 to import 232,212,465 liters (61,344,055 gallons) of gasoline into Kuwait (using a conversion rate of .2641721 gallons per liter), for an average price of \$2.65 per gallon. E-mail from Army Corps, *supra* note 2. On November 26, the Corps sent minority staff another e-mail reporting that, as of November 23, Halliburton had imported a total of 279,000,000 liters (73,704,016 gallons) of gasoline from Kuwait, and that the price per gallon was \$2.72. E-mail from Army Corps, *supra* note 3. If these figures are accurate, Halliburton imported 12,359,961 additional gallons of gasoline from Kuwait between October 19 and November 23 at a cost of \$37,818,695, for an average cost of \$3.06 during that time.

Gasoline Prices in Kuwait

The Congressional Research Service has reported that the average price for “Arab Gulf” gasoline in the Middle East was about \$0.71 per gallon between April and September.⁵ This price, which is also known as the “spot price,” is available to buyers for purchase on the day the price is listed. Yet Halliburton was paying \$1.17 per gallon for gasoline from Kuwait during this period — \$0.46 per gallon above the published spot price.

Halliburton has argued publicly that it was limited to 30-day contracts, which increased the purchase price.⁶ During our November 17 briefing, however, Army Corps officials conceded just the opposite: 30-day contracts should cost less on average than the one-day spot prices reported by CRS.

The comparison of the costs of gasoline in Kuwait and Turkey is also informative. Kuwait is a major oil-producing nation, generating over two million barrels of oil per day. It is also the nation whose territory we fought to liberate from Iraq in the 1991 Gulf War. In comparison, Turkey is a net importer of oil and produces only 48,000 barrels per day.⁷ It makes no sense that gasoline bought at wholesale inside Kuwait would cost \$1.17 per gallon while gasoline bought at wholesale inside Turkey would cost only \$0.89 per gallon.

Transportation Costs

The \$1.21 for transportation is also highly questionable. According to experts we consulted, it should be possible to transport gasoline into Iraq for costs ranging from 15 to 25 cents per gallon.⁸ We have not heard an adequate explanation for why Halliburton’s costs were more than five times higher than these estimates.

⁵ Congressional Research Service, *Average of Recent 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 September 18, 2003).

⁶ *New Information May Bolster Questions on Halliburton*, New York Times (Oct. 22, 2003) (quoting a Halliburton spokesperson as saying that the company “has been prevented from procuring fuel contracts for longer than a 30-day period” and that “[s]imple economics dictate that companies who are not bound by these guidelines, and are able to negotiate price on a long-term contract basis, can negotiate lower prices”).

⁷ U.S. Central Intelligence Agency, *The World Factbook* (online at www.cia.gov/cia/publications/factbook/geos/tu.html).

⁸ Telephone conversation between Gordon Schremp, Senior Fuels Specialist, California Energy Commission, and Minority Staff, Committee on Government Reform (Oct. 14, 2003) (assuming 400 miles between Kuwait and Baghdad). *See also* Telephone conversation between Philip K. Verleger, Jr., President, PKVerleger LLC, and Principal, Battle Group, and Minority

In public statements, Administration officials have raised security concerns as one factor behind higher transportation prices.⁹ We appreciate the security dangers, but do not understand how they can account for such high transportation costs. As we pointed out in our previous letter, the U.S. military protects the trucks importing gasoline from Kuwait.

The Iraqi state oil company, SOMO, is currently importing gasoline from Kuwait for only \$0.96 per gallon, a price that includes both the cost of the gasoline and the transportation costs.¹⁰ According to the Coalition Provisional Authority, "SOMO fuel imports are generally being delivered to the same depots and distribution systems" as the Halliburton imports.¹¹ Moreover, both the Halliburton and the SOMO fuel imports are being brought into Iraq under the same military escorts. As the CPA explained to us, "[f]uel truck convoys are required to be escorted by coalition military forces regardless of ownership."¹²

At the November 17 briefing with Army Corps and CPA officials, the minority staff asked how Halliburton's transportation costs alone could be \$1.21 per gallon when SOMO is able to both buy gasoline and transport it into Iraq for a combined price of just \$0.96 per gallon. No one could explain this striking discrepancy.

SOMO is not the only entity that is able to buy gasoline and transport it into Iraq at a far lower cost than Halliburton. The Pentagon's own fuel distribution office, the Defense Energy Support Center, currently pays between \$1.08 and \$1.19 per gallon to import gasoline from

Staff, Committee on Government Reform (Oct. 10, 2003) (suggesting a lower price to transport gasoline into Iraq of ten cents per gallon).

⁹ U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (Dec. 2, 2003) (online at www.hq.usace.army.mil/cepa/iraq/faq.htm) ("The area is still a hostile environment. Fuel trucks have been shot at, damaged, or stolen. Fuel truck drivers have been mugged and had their vehicles stolen. The contractor must charge for the risk inherent in this environment. And finally, due to the requirement to convoy the trucks and provide point-to-point security, it takes an average of 8 days for the round trip from Kuwait to Baghdad").

¹⁰ Letter from Mohammed M. Al-Jibouri, General Manager, State Oil Marketing Organization, to Minority Staff, Committee on Government Reform (Oct. 16, 2003).

¹¹ E-mail from Office of Secretary of Defense to Minority Staff, Committee on Government Reform (Oct. 16, 2003) (attributing responses to Larry Rogers, Deputy for Program Management, Task Force RIO).

¹² *Id.*

Kuwait for military purposes.¹³ Like the SOMO prices, the Energy Support Center prices are again less than half of what Halliburton charges.

Further, as the data demonstrate, Halliburton's Turkish subcontractor is able to transport gasoline into Iraq from Turkey for just \$0.22 per gallon through similarly dangerous conditions. Again, no one was able to explain why the costs of transporting gasoline from Kuwait were five times higher than the costs of transporting it from Turkey.

Halliburton's "Markup"

In public statements, Halliburton has emphasized that it receives only a minimal fee of 2% on its work in Iraq. In a company press release, Halliburton asserted that its contract "allows for billing solely for costs incurred plus a two percent fee."¹⁴ The press release went on to state that "[t]he company's two percent fee is less than the markup for products at a local gas station or supermarket."¹⁵

The new information from the Corps raises questions about this account. Halliburton is actually receiving a "markup" of \$0.24 per gallon and an "other" charge of \$0.02 per gallon for each gallon of gasoline imported into Iraq from Kuwait. This combined \$0.26 per gallon charge is 10% of the total price – five times greater than the 2% profit Halliburton claims it is making.

Based on what we know, it is hard to understand the rationale for the \$0.26 per gallon "markup" and "other" fee paid to Halliburton. According to the Corps, Halliburton's role in the gasoline importation contract is relatively limited. Halliburton's primary function is to hire another company as a subcontractor to purchase the gasoline and arrange its transportation into Iraq. Halliburton does not itself purchase or transport the gasoline.

Moreover, we do not understand why Halliburton's "markup" is \$0.24 per gallon on the gasoline imported from Kuwait, but only \$0.11 per gallon on the gasoline from Turkey.

¹³ Telephone conversation between John Bartenhagen, Director, Direct Delivery Fuels Unit, Defense Energy Support Center, and Minority Staff, Committee on Government Reform (Oct. 31, 2003). This price includes transportation from Kuwait to a base approximately 150 miles inside Iraq.

¹⁴ *Press Release: Halliburton Refutes Statements Made about Fuel Procurement and Delivery in Iraq* (Oct. 17, 2003) (online at http://biz.yahoo.com/prnews/031017/daf024_1.html).

¹⁵ *Id.* See also *Halliburton Says Makes Slim Profits for Iraqi Fuel*, Reuters News (Oct. 21, 2003) (quoting Halliburton spokesman Thomas Crum speaking at an American Petroleum Institute conference saying the company delivers fuels into Iraq at "actual cost and with very low margin").

Finally, we are also concerned that Halliburton's final charges may be even higher than the \$0.26 per gallon cost identified by the Corps. Halliburton is eligible to receive an additional 5% fee for performing the contract.¹⁶ This is equivalent to an extra \$0.13 per gallon, which would bring Halliburton's total markups and fees to \$0.39 per gallon.

Conclusion

Gasoline imports are one of the single largest expenditures of U.S. reconstruction efforts in Iraq. To date, nearly \$450 million has been spent on gasoline imports,¹⁷ and an additional \$690 million has been appropriated for gasoline and other fuel imports in 2004.¹⁸ Literally hundreds of millions of taxpayer dollars are at stake.

Despite the enormous costs, the White House has consistently refused to address this issue. This will be the fourth letter we have written to the White House to express our concerns about how taxpayer dollars are being spent in Iraq.¹⁹ But the White House has refused to respond to these inquiries or offer any explanation for the high costs being paid by the taxpayer.

We do not understand this continuing indifference to the mounting evidence of overcharging by Halliburton. We urge you to investigate this matter and respond immediately to the concerns raised in this letter and our previous letters.

Sincerely,



Henry A. Waxman
Ranking Minority Member
Committee on Government Reform



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

¹⁶ U.S. Army Corps of Engineers, *supra* note 9 (“The contractor is guaranteed a fee of two percent and can make a maximum of seven percent, depending on performance”).

¹⁷ E-mail from Army Corps, *supra* note 3.

¹⁸ H.R. 3289, Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Joint Explanatory Statement of the Committee of Conference) (Oct. 30, 2003).

¹⁹ *See also* Letter from Reps. Henry A. Waxman and John D. Dingell to Joshua Bolten, Director, Office of Management and Budget (Sept. 12, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Joshua Bolten, Director, Office of Management and Budget (Oct. 15, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to National Security Advisor Condoleezza Rice (Oct. 29, 2003).