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ONE HUNDRED EIGHTH CONGRESS

# Congress of the United States

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### Statement of Rep. Henry A. Waxman Contracting Abuses in Iraq October 15, 2003

There is a lot that is controversial about the war in Iraq and its aftermath. Many Americans believe the President misled the country about the reasons for going to war. Others think the Administration is not doing enough to protect our troops in Iraq. And many more question why so much money is going to Iraq when economic conditions are so tough at home.

But there is one thing that everyone should agree on: If we are going to be spending taxpayer dollars to rebuild Iraq, we ought to be getting our money's worth.

Yet even on something as basic as this, the Administration is failing. There is growing evidence that favored contractors like Halliburton and Bechtel are getting sweetheart deals that are costing the taxpayer a bundle but delivering scant results.

Today, I am releasing with Rep. John Dingell a letter to OMB Director Bolten that details the latest evidence of overcharging by Halliburton.

I asked my staff a simple question: Can we trace the path of a gallon of gasoline from a refinery in Kuwait to the streets of Baghdad? Although the question was simple, getting the answer was hard. Obtaining useful information from this Administration is virtually impossible.

But what independent experts told us was appalling. The taxpayer is getting gouged by Halliburton.

The wholesale price of refined gasoline in Kuwait and other Mideast nations is 71 cents per gallon. A reasonable cost to transport gasoline into Iraq is another 10 to 25 cents per gallon.

Unless the company is Halliburton. It is charging taxpayers nearly \$1 per gallon to truck this gasoline 400 miles from Kuwait to Baghdad.

When we checked with independent experts to see if this fee was reasonable, they were stunned. One called Halliburton's prices "outrageously high." Another said it was "highway robbery."

We then learned that this gasoline is being sold inside Iraq for as little as 4 to 15 cents per gallon. 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 the costs of 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.

Unfortunately, this dramatic example of overcharging is more likely the rule than the exception. The problem is that the Administration's approach to contracting in Iraq is fundamentally flawed.

The Administration is making three basic mistakes. First, it is relying almost exclusively on cost-plus contracts. These contracts are a great deal for companies like Halliburton and Bechtel because they are structured so that the more the companies spend, the more profits they will make. But they are notoriously prone to abuse.

Second, the Administration is shielding Halliburton and Bechtel from any competition by granting them virtual monopolies over basic services. The kind of contracts that Halliburton and Bechtel have received are umbrella contracts called IDIQ contracts because they involve "indefinite delivery and indefinite quantities." These umbrella contracts are supposed to be awarded to multiple companies at the same time. That way, when there's a specific task that needs to be performed, the government can make the contractors bid against each other.

But there's no competition in Iraq. Halliburton has a monopoly over oil reconstruction contracts and Bechtel has a monopoly over infrastructure reconstruction contracts.

Again, this is great for the companies, but terrible for the taxpayer. Both companies are already in Iraq. They can both do the same work. Think how much money the taxpayer could save if the companies actually had to compete against each other for specific projects.

The third problem is that the Administration is not taking advantage of Iraqi companies who could often do the work at a fraction of the cost that Halliburton and Bechtel charge.

We have been told that the Iraqi oil company SOMO has been able to import gasoline at a price that is 50 cents per gallon less than Halliburton charges. If that's true, something very wrong is going on.

Ultimately, the root cause of these problems is the Administration's insistence on virtually absolute secrecy about how it is spending the taxpayer's money. These abuses could not continue if the Administration were forced to disclose the details of these sweetheart

arrangements. That's why I will support amendments on the House floor to inject transparency into the contracting process.

And on top of this, there's virtually no congressional oversight, so there's no accountability. If we at least had hearings on these issues, we could put pressure on the companies to cut wasteful spending.

Millions of Americans want to help Iraqis, but they don't want to be fleeced.