

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

November 5, 2003

Lt. Gen. Robert B. Flowers
ATTN: Directorate of Military Programs
U.S. Army Corps of Engineers
441 G Street, NW
Washington, DC 20314

Dear General Flowers:

We have learned that the Army Corps of Engineers is considering transferring the responsibility to import gasoline and other fuels into Iraq from Halliburton to the Defense Energy Support Center. Given the extraordinarily high prices that Halliburton has been charging to import gasoline, this action could save American taxpayers hundreds of millions of dollars.

We have written to you and to the White House on several occasions about the exorbitant prices Halliburton is charging for gasoline.¹ As this correspondence documents, Halliburton has charged \$2.65 per gallon to import over 60 million gallons of gasoline from Kuwait into Iraq. This price is more than double the price that experts have said would be reasonable, which is \$1.00 per gallon or less. It is also more than double than the price that the Iraqi state oil company, SOMO, is paying to bring in gasoline from Kuwait, which is just 97 cents per gallon.

As part of our continuing investigation into this issue, we consulted with the experts at the Energy Support Center in the Department of Defense. The mission of the Defense Energy Support Center is to deliver fuel to the far corners of the world, frequently on short notice. The Center has decades of experience with fuel acquisition and transportation. In fact, it is currently delivering gasoline into both Iraq and Afghanistan for some military units.

The Director of the Defense Energy Support Center, Jeffrey Jones, confirmed our concerns about Halliburton's high prices. Mr. Jones stated: "without knowing what the \$2.65 price is composed of, it seems extraordinarily high — at least double what it should be." He also explained: "\$1.65 for transport just doesn't make sense. It's way out of range." Officials told us that the Defense Energy Support Center is currently importing gasoline into Iraq from Kuwait for military use for just \$1.08 to \$1.19 per gallon, less than half the price Halliburton is charging.

¹ 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 Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers (Oct. 21, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Condoleezza Rice, Assistant to the President for National Security Affairs (Oct. 29, 2003).

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According to these officials, the Defense Energy Support Center can even deliver jet fuel all the way to Antarctica for significantly less than Halliburton charges to take gasoline just 400 miles from Kuwait to Baghdad.

We also learned from the Defense Energy Support Center that the Corps is likely to terminate Halliburton's fuel importation responsibilities. Mr. Jones told us that the Corps has in recent days approached the Defense Energy Support Center about transferring the fuel program from Halliburton to the Center. According to Mr. Jones, the Corps asked the Defense Energy Support Center to take over the job of bringing gasoline and other fuels into Iraq. The Center is currently evaluating how soon Halliburton's responsibilities could be transferred and how such a transfer could be implemented.

We were surprised to learn from Mr. Jones that no one from the Administration asked the experts at the Defense Energy Support Center about importing fuel into Iraq until after we wrote to you on October 21, 2003, raising questions about Halliburton's fuel prices. If the Center had been consulted before Halliburton was tasked with importing fuel under its no-bid, sole-source contract, many millions of dollars could have been saved. Nevertheless, we commend you for considering this alternative now. We strongly support efforts to reduce costs to the taxpayer by finding an alternative means of importing gasoline into Iraq.

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

Background

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.² After repeated suggestions that the contract was limited to fighting oil fires and carrying out related repairs, the Corps revealed on May 2, 2003, that the contract was considerably broader in scope and extended to operating oil facilities and distributing fuel.³ To date, the Corps has awarded Halliburton task orders worth \$1.59 billion under this contract.⁴ Combined with task orders issued to Halliburton

² Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (Apr. 8, 2003).

³ Letter from Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers, to Rep. Henry A. Waxman (May 2, 2003).

⁴ U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom (March 2003 Contract Obligation Status)* (Nov. 4, 2003) (online at www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm).

under a separate contract with the Army, called the Logistics Civil Augmentation Program (LOGCAP), Halliburton has received about \$3.6 billion in task orders relating to the war and reconstruction effort in Iraq.⁵

A significant component of Halliburton's work under the sole-source oil contract has been to import petroleum products into Iraq. As of October 19, 2003, Halliburton had charged \$501,526,582 to import gasoline, diesel, and liquefied petroleum gas into Iraq. Of this amount, \$380,684,212 was for importing 240,348,110 gallons of gasoline into Iraq from Kuwait and Turkey.⁶

Halliburton has charged significantly different prices for the gasoline, depending on whether it originated in Turkey or in Iraq. As of October 19, 2003, Halliburton had imported 61,304,091 gallons of gasoline from Kuwait for \$162,503,305, an average price of \$2.65 per gallon. In contrast, Halliburton had imported 179,044,019 gallons of gasoline from Turkey for \$218,180,907, an average price of just \$1.22 per gallon. Overall, the average price for all gallons of gasoline imported by Halliburton is \$1.58 per gallon.⁷

Experts have expressed grave doubts about the reasonableness of Halliburton's prices. One expert, Philip Verleger, said Halliburton's prices are "outrageously high."⁸ He has also said, "This sort of thing stinks. All of the products are available in the Gulf at spot prices around 70 to 80 cents per gallon. I know of no fuel purchasing organizations in the world . . . who can justify margins anywhere close."⁹ 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

⁵ U.S. Army Field Support Command, *LOGCAP Spreadsheet* (Oct. 2003) (citing \$2.01 billion awarded under the LOGCAP contract for Operation Iraqi Freedom).

⁶ E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Oct. 21, 2003).

⁷ *Id.* There is some confusion about whether this figure includes Halliburton's guaranteed 2% fee. There is no dispute, however, that the figures provided by the Army Corps do not include Halliburton's additional award of up to 5%. When this full award is taken into account, the average per-gallon price of gasoline ranges from \$1.58 to \$1.65.

⁸ Telephone conversation between Philip K. Verleger, Jr., President, PKVerleger LLC and Principal, Brattle Group, and Minority Staff, Committee on Government Reform (Oct. 10, 2003).

⁹ *Halliburton Defends Price of Iraqi Fuel*, Platts Oilgram News (Oct. 20, 2003).

and selling it for \$1.70 — that’s highway robbery.” These experts estimated a more reasonable cost of under \$1.00 per gallon.¹⁰

We also sought information directly from SOMO, the Iraqi state-owned oil company. SOMO has been importing gasoline into Iraq from the same countries as Halliburton and doing so at a fraction of the cost. According to SOMO officials, they pay between 90 and 98 cents per gallon to import gasoline from Turkey and Kuwait, the same source countries used by Halliburton. When gasoline is imported from Kuwait to Baghdad, the average cost for SOMO is 96 cents per gallon.¹¹ The enormous gap between the SOMO price and the Halliburton price is not explained by differences in sources, modes of transport, or delivery locations.¹²

¹⁰ 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, not including the cost to transport the gasoline into Iraq. Congressional Research Service, *Average of Recent Gasoline Prices in the Persian Gulf* (Oct. 14, 2003). One expert said that under ordinary conditions, it should be possible to transport gasoline into Iraq for costs ranging from 15 to 25 cents per gallon. Telephone conversation between Gordon Schremp, Senior Fuels Specialist, California Energy Commission, and Minority Staff, Committee on Government Reform (Oct. 14, 2003). Another expert said it might be possible to transport gasoline into Iraq for as little as 10 cents per gallon. Telephone conversation with Phillip K. Verleger, *supra* note 8. Even assuming the most expensive transportation estimate, the total per-gallon cost would be about 96 cents.

¹¹ Letter from Mohammed M. Al-Jibouri, General Manager, State Oil Marketing Organization, to Minority Staff, Committee on Government Reform (Oct. 16, 2003). Because SOMO does not have cash to make these purchases, they enter into barter transactions to trade fuel oil for gasoline. According to Mr. Al-Jibouri, the specific price paid by SOMO depends on the source of the imported gasoline and its destination inside Iraq. The most expensive gasoline is imported from Turkey and delivered to Baghdad. According to Mr. Al-Jibouri, “gasoline price from Turkey cost USD 347 per m. ton delivered to Baghdad which is about USD 0.98 per gallon.” The least expensive gasoline is imported from Kuwait and delivered to Basrah at just 90 cents per gallon.

¹² 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). The Coalition Provisional Authority confirmed that “[b]oth KBR and SOMO are bringing in imports from Turkey and Kuwait” and that “KBR and SOMO fuel imports are generally being delivered to the same depots and distribution systems.” Although Halliburton raised security concerns as a possible explanation for its higher prices, the CPA also confirmed that “[f]uel truck convoys are required to be escorted by coalition military forces regardless of ownership.”

The Defense Energy Support Center

Recently, our staffs contacted the Defense Energy Support Center to learn its views about the importation of fuel into Iraq. The Center's core mission is "to provide the Department of Defense and other government agencies with comprehensive energy solutions in the most effective and economical manner possible."¹³ According to the Center's Director, Jeffrey Jones, the "lifeblood" of the Center is delivering fuel around the world, usually for military customers, and often on short notice. The Energy Support Center has had a permanent Persian Gulf office in Bahrain for 50 years.¹⁴

We learned two significant facts from the Defense Energy Support Center: (1) the experts there confirm many of our concerns about the high prices being charged by Halliburton, and (2) the Corps has approached the Center about the possibility of taking over the contract from Halliburton.

The experts at the Defense Energy Support Center are mystified by Halliburton's inflated price for gasoline from Kuwait. Director Jones told us: "without knowing what the \$2.65 price is composed of, it seems extraordinarily high — at least double what it should be."¹⁵ Given that the gasoline itself should cost less than a dollar, that leaves a transport cost of at least \$1.65. Mr. Jones commented: "\$1.65 for transport just doesn't make sense. It's way out of range."¹⁶

In fact, the Defense Energy Support Center has demonstrated that it can do this work at a far lower cost than Halliburton. Right now, the Center is importing gasoline from Kuwait into Iraq for military use. Like Halliburton, the Center purchases its gasoline for southern Iraq from the Kuwait Petroleum Company. In total, it costs the Center just \$1.08 to \$1.19 per gallon to buy the fuel and transport it by truck to a base inside Iraq.¹⁷ Thus, the Defense Energy Support Center is currently importing gasoline from Kuwait into Iraq for less than half the \$2.65 price charged by Halliburton.

¹³ Defense Energy Support Center, *Mission Statement* (Nov. 3, 2003) (online at www.desc.dla.mil/).

¹⁴ Telephone conversation between Jeffrey Jones, Director, Defense Energy Support Center, and Minority Staff, Committee on Government Reform (Oct. 24, 2003).

¹⁵ Telephone conversation between Jeffrey Jones, Director, Defense Energy Support Center, and Minority Staff, Committee on Government Reform (Oct. 31, 2003).

¹⁶ *Id.*

¹⁷ Telephone conversation between John Bartenhagen, Director, Direct Delivery Fuels Unit, and Minority Staff, Committee on Government Reform (Oct. 31, 2003). This price includes transportation from Kuwait to a base approximately 150 miles inside Iraq.

The Halliburton prices also appear excessive when compared to other benchmarks from the Defense Energy Support Center. The Center imports gasoline into Afghanistan for between 97 cents and \$1.02 a gallon.¹⁸ The Center also delivers diesel and jet fuel, a more refined product than gasoline, to Antarctica by tanker for between \$1.75 and \$1.85 per gallon.¹⁹

Given the Center's mission and track record, we question why the Administration did not consider giving the contract to import fuel into Iraq to the Center rather than Halliburton. For some unknown reason, however, this was never considered until recently. According to Mr. Jones, Director of the Center, the Corps did not discuss with him the possibility of using the Center to import fuel until October 24, 2003, three days after we sent you a letter regarding Halliburton's inflated gasoline prices.²⁰

Nonetheless, it now appears that the Corps is likely to terminate its arrangement with Halliburton to import gasoline and other fuels into Iraq and to transfer this responsibility to the Defense Energy Support Center. According to Mr. Jones, the Corps recently asked the Center to begin purchasing gasoline and diesel for importation into Iraq.²¹ It is his understanding that all of Halliburton's fuel work will be handed over to the Center within the next couple months.²² John Bartenhagen, Director of the Direct Delivery Fuels Unit within the Center, also expects the Center to begin its work in that time frame.²³

Conclusion

We commend you for considering terminating Halliburton's responsibilities for importing fuel into Iraq. The supplemental appropriations bill that has passed the House and the Senate allocates \$690 million for fuel importation over the next fiscal year. From the evidence available to us, it appears that hundreds of millions of taxpayer dollars will be saved by

¹⁸ E-mail from John Bartenhagen, Director, Direct Delivery Fuels Unit, to Minority Staff, Committee on Government Reform (Nov. 5, 2003).

¹⁹ Telephone conversation with John Bartenhagen, *supra* note 17.

²⁰ Telephone conversation with Jeffrey Jones, *supra* note 18; Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers (Oct. 21, 2003).

²¹ Telephone conversation with Jeffrey Jones, *supra* note 18.

²² Telephone conversation with Jeffrey Jones, *supra* note 15.

²³ Telephone conversation with John Bartenhagen, *supra* note 17.

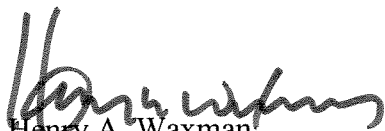
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transferring the fuel importation responsibilities from Halliburton to a more cost-conscious entity such as the Defense Energy Support Center.

We also renew our request that you conduct a joint investigation with the Defense Contract Audit Agency, the Defense Finance and Accounting Service, and the Defense Department Inspector General to determine what amounts Halliburton is paying for gasoline, what amounts it is paying for transportation, and why these amounts are so high. If the results of this investigation confirm overcharging, we urge you to seek immediate reimbursement from Halliburton.

We continue to have unanswered questions about the prices being charged by Halliburton. With the exception of the Army Corps, the Administration has been unresponsive to our information requests and letters. Your staff has recently suggested a meeting between our staffs and Corps experts. We agree that such a meeting would be helpful. We believe a discussion of the fuel importation effort would also benefit from a review of additional information and documents regarding the oil infrastructure contract and resulting task orders.

Thank you for your consideration of these requests.



Henry A. Waxman
Ranking Minority Member
Committee on Government Reform

Sincerely,



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