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Congress of the United States

House of Representatives

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November 10, 2004

The Honorable Tom Davis
Chairman
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to request additional hearings on Halliburton's \$7 billion no-bid contract to restore Iraq's oil infrastructure.

Documents that the Committee recently received from the State Department reveal that senior Administration officials, including the U.S. Ambassador to Kuwait, intervened to direct a lucrative fuel contract to a favored Kuwaiti subcontractor. The documents also disclose that the State Department received reports in June and August 2003 that Halliburton officials demand "kickbacks," "solicit bribes openly," and "are on the take." The implications of these new disclosures should be thoroughly investigated.

On July 9, 2004, we jointly requested copies of communications from the U.S. embassy in Kuwait regarding the Altanmia Commercial Marketing Company, the Halliburton subcontractor responsible for importing fuels into Iraq from Kuwait. On October 8, the State Department produced over 400 documents in response to this request. These documents appear to undermine months of claims by Administration officials that the Halliburton contracts and subcontracts were awarded without political interference and without knowledge of allegations of corruption.

Beginning in October 2003, Rep. John Dingell and I wrote a series of letters to Administration officials raising concerns about the extraordinarily high prices that Halliburton and its KBR subsidiary were charging to import gasoline from Kuwait into Iraq. Our correspondence revealed that KBR and its Kuwaiti subcontractor, Altanmia, charged the taxpayer \$2.64 per gallon to import gasoline into Iraq, which was more than double what it cost others to provide the same fuel. Our concerns were validated on December 11, 2003, when the Defense Contract Audit Agency (DCAA) disclosed a draft audit that estimated that KBR and Altanmia had overcharged the taxpayer \$61 million for gasoline imports through September 30, 2003.

The State Department documents show that rather than acting to halt these overcharges, senior State Department officials intervened to pressure U.S. contracting officials to drop their efforts to find a less expensive source of gasoline. On December 2, 2003 — just nine days before DCAA revealed its audit findings — Richard Jones, the U.S. Ambassador to Kuwait and Deputy Administrator of the Coalition Provisional Authority, sent an e-mail directing officials to:

[T]ell KBR to get off their butts and conclude deals with Kuwait NOW! Tell them we want a deal done with al-Tanmia within 24 hours and don't take any excuses. If Amb. Bremer hears that KBR is still dragging its feet, he will be livid.

Federal procurement rules require “complete impartiality and ... preferential treatment for none” in contracting decisions. Standard contract clauses mandate subcontract competition to the maximum extent practicable. Yet as this e-mail and other similar ones reveal, senior Administration officials repeatedly insisted that Halliburton continue to use Altanmia rather than solicit bids from less expensive competitors. According to a December 6 document from Mary Robertson, the career official at the Army Corps of Engineers responsible for the Halliburton oil contract, she received “political pressures ... to go against my integrity and pay a higher price for the fuel than necessary.”

The documents also reveal that the Administration received warnings of extensive corruption in the Halliburton oil contract in June and August 2003. One e-mail summarizing an August 4, 2003, meeting between embassy officials and Altanmia reports Altanmia's claim that it is “common knowledge” that coalition and KBR officers “are on the take; that they solicit bribes openly; that anyone visiting their seaside villas at the Kuwaiti Hilton who offers to provide services will be asked for a bribe.”

In addition to these new documents, there is other recent evidence of special treatment for Halliburton that our Committee has not considered. Two weeks ago, the attorneys representing Bunnatine Greenhouse, the top contracting official at the Army Corps of Engineers, sent a letter and documents to the Committee. According to these materials, Ms. Greenhouse observed multiple instances in which Halliburton received special treatment from Defense Department officials. Her allegations are now being investigated by the FBI.

To your credit, our Committee has already held hearings on the Halliburton contracts. The State Department documents and the materials provided by Ms. Greenhouse raise new issues that deserve further investigation. For this reason, I respectfully request that the Committee hold hearings to examine (1) the new evidence that senior Administration officials applied political pressure to stifle competition and steer the lucrative fuel subcontract to Altanmia; (2) the new claims that Halliburton executives sought kickbacks and bribes; and (3) Ms. Greenhouse's allegations of special treatment for Halliburton.

Background

On March 8, 2003, the Army Corps of Engineers awarded Halliburton a secret no-bid monopoly contract to restore and operate Iraq's oil infrastructure, currently valued at \$2.53 billion but worth up to \$7 billion.¹ Under this cost-plus contract, Halliburton's costs are reimbursed, and the company receives an additional fee of 2% to 7% of its costs.

On May 4, 2003, the Corps of Engineers issued Task Order 5 under the contract, instructing Halliburton to begin purchasing and importing fuel into Iraq for civilian use.² Nearly \$1.5 billion has been obligated for fuel importation into Iraq under this and subsequent task orders.³

Halliburton did not perform the fuel importation work itself. Instead, its KBR subsidiary selected an obscure Kuwaiti subcontractor, Altanmia Commercial Marketing Company, to import gasoline from Kuwait. Altanmia had no previous fuel procurement or transportation experience.⁴ According to Halliburton representatives, the company knew about Altanmia because Halliburton had previously leased real estate from an affiliated company within the same family-owned conglomerate.⁵

On October 15, 2003, Rep. John D. Dingell and I wrote to Joshua Bolton, Director of the Office of Management and Budget, to raise concerns about Halliburton's fuel charges.⁶ In the following months, we wrote eight more letters raising additional concerns about Halliburton's fuel choices and its relationship with Altanmia.⁷

¹ U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (May 11, 2004) (online at www.hq.usace.army.mil/CEPA/Iraq/March03-table.htm).

² U.S. Army Corps of Engineers, *Information Paper: Business Case by USACE for the Use of Altanmia as a Supplier of Fuel under the RIO Contract* (Jan. 6, 2004).

³ U.S. Army Corps of Engineers, *supra* note 1.

⁴ *Fuel for the Fire: At Center of Halliburton Uproar, Little-Known Kuwaiti Company*, Wall Street Journal (Apr. 14, 2004).

⁵ Meeting between Halliburton representatives and Minority Staff, Committee on Government Reform (June 2, 2004).

⁶ Letter from Reps. Henry A. Waxman and John D. Dingell to Joshua Bolten, Director, Office of Management and Budget (Oct. 15, 2003).

⁷ 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

As our letters pointed out, independent experts consulted by the staff expressed grave doubts about the reasonableness of Halliburton's fuel prices. Phil Verleger, an independent oil economist, said: "It's as if they put the gasoline on the Queen Mary and take it around the globe before they deliver it."⁸ Jeffrey Jones, until recently the Director of the Defense Energy Support Center, stated: "I can't construct a price that high."⁹

The letters compared Halliburton's \$2.64 per gallon price for Kuwaiti gasoline to other benchmarks. One letter revealed that Iraq's state-owned oil company, the State Oil Marketing Organization (SOMO), hired contractors to purchase gasoline and deliver it to Baghdad for about \$1.00 per gallon.¹⁰ Another letter disclosed that Halliburton's prices to purchase gasoline and deliver it from Turkey were far lower than those for purchasing and delivering from Kuwait.¹¹

On December 11, 2003, government auditors from the Defense Contract Audit Agency announced that a draft audit found that Halliburton had overcharged the U.S. government by as much as \$61 million for gasoline imported from Kuwait into Iraq as of September 30.¹² The DCAA auditors sought certified cost and pricing data from Halliburton and Altanmia in order to assess whether the costs being billed to the government were fair and reasonable.

and John D. Dingell to Condoleezza Rice, Assistant to the President for National Security Affairs (Oct. 29, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers (Nov. 5, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Joseph E. Schmitz, Inspector General, U.S. Department of Defense (Nov. 25, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Condoleezza Rice, Assistant to the President for National Security Affairs (Dec. 10, 2003); Letter from Reps. Henry A. Waxman and John D. Dingell to Lt. Gen. Robert B. Flowers, U.S. Army Corps of Engineers (Jan. 6, 2004); Letter from Rep. Henry A. Waxman to Condoleezza Rice, Assistant to the President for National Security Affairs (Jan. 15, 2004); Letter from Reps. Henry A. Waxman and John D. Dingell to Joseph E. Schmitz, Inspector General, U.S. Department of Defense (Feb. 24, 2004).

⁸ *The High Price of Gasoline for Iraq*, NBC News (Nov. 5, 2003).

⁹ *Army Eyes Halliburton Import Role in Iraq*, Associated Press (Nov. 5, 2003).

¹⁰ 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). *See also*, Letter from Mohammed M. Al-Jibouri, General Manager, State Oil Marketing Organization, to Minority Staff, Committee on Government Reform (Oct. 16, 2003). More recent conversations with experts in the region confirm this pricing.

¹¹ Letter from Reps. Henry A. Waxman and John D. Dingell to Condoleezza Rice, Assistant to the President for National Security Affairs (Dec. 10, 2003).

¹² U.S. Department of Defense, *News Briefing* (Dec. 11, 2003).

DCAA's audit of the fuel contract was undermined eight days later. On December 19, the Corps of Engineers unilaterally declared Halliburton's gasoline prices to be "fair and reasonable."¹³ As part of this action, the Corps gave Halliburton a waiver from the requirement to provide "any cost and pricing data" from Altanmia relating to the importation of gasoline.¹⁴

Evidence of Political Pressure by Administration Officials

A fundamental principle of government contracting is that "[g]overnment business shall be conducted in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none."¹⁵ According to the Federal Acquisition Regulation (FAR), the actions of government officials "must ... be such that they would have no reluctance to make a full public disclosure of their actions."¹⁶ A competitive procurement process should provide the best value for the taxpayer and be free of extraneous political influence. In addition, the Restore Iraqi Oil contract includes a standard FAR clause that provides that "[t]he Contractor shall select subcontractors ... on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract."¹⁷

Since Halliburton was awarded its no-bid contract in March 2003, the Administration has consistently denied any political involvement in the contract and has repeatedly claimed that career civil servants were responsible for impartial contracting decisions. For instance, during an October 2003 press conference, Assistant Secretary of State Robert Boucher asserted: "The decisions are made by career procurement officials. There's a separation, a wall, between them and political-level questions when they're doing the contracts."¹⁸ At a March 11, 2004, Government Reform Committee hearing, you asked several senior Administration officials whether they were aware of any political pressure on them or others to award Iraq contracts to particular companies. Specifically, you asked, "Have you or anyone in your office been pressured by any political appointee or high official in the administration to make an award to a

¹³ U.S. Army Corps of Engineers, *Waiver for Submission of Cost and Pricing Data* (Dec. 19, 2003).

¹⁴ *Id.*

¹⁵ Federal Acquisition Regulation, 48 CFR 3.101-1.

¹⁶ *Id.*

¹⁷ Contract DACA63-03-D-0005, Clause 52.244-5 (a) (Mar. 8, 2003).

¹⁸ U.S. Department of State, *News Briefing by Ambassador Richard A. Boucher, Assistant Secretary of State for Public Affairs* (Oct. 30, 2003).

particular firm or go easy on any contractor in carrying out contract oversight activities?" Each panelist responded in the negative.¹⁹

On December 15, 2003, the U.S. embassy in Kuwait specifically denied any exertion of political pressure or involvement in the selection of Altanmia. According to a State Department spokesperson, the embassy "wasn't involved in the Army Corps of Engineers' selection of its counterpart company for the purchase of humanitarian fuels in Iraq, nor have we pressured them on any aspect of their dealings with these companies."²⁰

The State Department documents we have obtained directly contradict these assertions.

After Rep. Dingell and I raised concerns about Halliburton's fuel prices, the Corps of Engineers and KBR initiated an effort in November and early December 2003 to locate alternative subcontractors who could import fuel from Kuwait into Iraq at a lower cost than Altanmia. The State Department documents demonstrate that this initiative met stiff resistance from the U.S. embassy in Kuwait, which applied pressure to force the Corps and KBR to retain Altanmia as the subcontractor.

The documents show that on December 2, 2003, Richard Jones, the U.S. Ambassador to Kuwait and Deputy Administrator of the Coalition Provisional Authority, sent an e-mail ordering Administration officials to:

[T]ell KBR to get off their butts and conclude deals with Kuwait NOW! Tell them we want a deal done with al-Tanmia within 24 hours and don't take any excuses. If Amb. Bremer hears that KBR is still dragging its feet, he will be livid.²¹

This e-mail from the Ambassador was sent just nine days before DCAA released its audit showing that Halliburton and Altanmia had overcharged the taxpayer by \$61 million.

Ambassador Jones's e-mail was not an isolated occurrence. Referring to a request for proposals sent out by Halliburton, a December 3 embassy e-mail states: "this kind of shenanigans from KBR is jeopardizing in the worst way" the likelihood that the Government of Kuwait ("GoK") would "do whatever is necessary to get fuel to Iraq."²² The e-mail elaborates: "As KBR has been told repeatedly, al-Tanmia is the GoK's sole source provider. The GoK has

¹⁹ House Committee on Government Reform, *Hearings on Iraq Reconstruction Contracts* (Mar. 11, 2004).

²⁰ *U.S. Officials May Have Steered Halliburton to Kuwaiti Supplier*, Wall Street Journal (Dec. 15, 2004).

²¹ E-mail from Ambassador Richard A. Jones to CPA officials (Dec. 2, 2003).

²² U.S. Department of State e-mail (Dec. 3, 2003).

established al-Tanmia as a sop to the USG in order to allow sales from al-Tanmia to KBR ... Somebody'd better get these jokers at KBR under control."²³

These e-mails received an immediate response. Later on December 3, a senior U.S. advisor to the Iraqi Oil Ministry reported, "KBR will negotiate with Al-Tanmia only and was given specific instructions ... by the [Corps of Engineers] to proceed."²⁴ Another December 3 State Department e-mail explains how this was accomplished: "KBR changed the description of the 'RFP for Bulk Fuel' meeting to a 'meeting to survey the assets of bidders on future contracts.'"²⁵ In doing so, KBR effectively retracted the request for proposals it had sent to companies other than Altanmia.

As a result of these State Department efforts, the contracting officials at the Corps of Engineers felt they were under increasing political pressure. Mary Robertson was the career contracting official in Iraq responsible for the Halliburton oil contract. On December 6, 2003, she wrote an extraordinary letter to KBR officials, stating: "I will not succumb to the political pressures from the GoK or the US Embassy to go against my integrity and pay a higher price for fuel than necessary."²⁶ Ms. Robertson wrote, "there are other firms who have indicated they can provide the product and this is the ethical thing to do."²⁷ She concluded:

I will not direct KBR to negotiate only with Altanmia to purchase fuel from Kuwait. My ethics will not allow me to direct KBR to go sole source to a contractor when I know there are other potential sources that can provide the fuel to the people in Iraq.²⁸

Ms. Robertson, however, was ultimately thwarted in her efforts. In a June 7, 2004, briefing to our staffs, she explained that the Corps of Engineers forwarded embassy e-mails like those discussed above to her. She viewed the e-mails as political pressure from the U.S. embassy and the Kuwaiti government to direct KBR to negotiate only with Altanmia. She also stated that the Kuwaiti Minister of Oil ignored her request to approve another subcontractor and that she saw no evidence that the U.S. embassy intervened with the Kuwaiti Oil Ministry in support of her request.²⁹

²³ *Id.*

²⁴ U.S. Army Corps of Engineers e-mail (Dec. 3, 2003).

²⁵ U.S. Department of State e-mail to Ambassador Richard A. Jones (Dec. 3, 2003).

²⁶ Letter from Mary C. Robertson, Administrative Contracting Officer, U.S. Army Corps of Engineers, to Kellogg Brown & Root (Dec. 6, 2003).

²⁷ *Id.*

²⁸ *Id.*

²⁹ U.S. Army Corps of Engineers briefing for majority and minority staffs of Committee on Government Reform (June 7, 2004). Because most of the names of embassy officials were

More recently, Bunnatine Greenhouse, the top civilian contracting official at the Army Corps of Engineers, complained of political interference in the Halliburton Restore Iraqi Oil contract. In an October 21, 2004, letter, Ms. Greenhouse's attorneys allege that Ms. Greenhouse protested the decision to award Halliburton the sole-source oil contract for a five-year term. They state that Ms. Greenhouse insisted that only a one-year term was justified by a "compelling emergency," but she was overruled. According to the letter, when she expressed her concerns on a contracting document, she was reprimanded and told that her comments were "causing trouble" for the Corps of Engineers.³⁰

Ms. Greenhouse's attorneys also say that in December 2003, Corps officials improperly excluded Ms. Greenhouse from the decision to issue the waiver that relieved Halliburton of the obligation to provide cost and pricing data to justify its gasoline prices.³¹ Ms. Greenhouse claims that senior Corps officials deliberately bypassed her when seeking a signature on the December 19 waiver. According to the letter, Administration officials "clandestinely went to a subordinate" to sign the waiver and "intentionally" withheld information from Ms. Greenhouse. The lawyers write: "Upon subsequent review, Ms. Greenhouse determined that she would not have signed off on the waiver because the documentation relied upon to justify the waiver did not provide her with a sufficient basis to allow her to conclude that the fuel charges were fair and reasonable."³²

Claims of Kickbacks and Corruption

The State Department documents also reveal that Administration officials were aware of allegations of rampant corruption involving Halliburton's Restore Iraqi Oil contract as early as June and August 2003. Halliburton disclosed in January 2004 that two of its employees participated in a kickback scheme under the LOGCAP troop support contract. The allegations in the State Department documents are the first indication that Halliburton employees may also have demanded kickbacks under the Restore Iraqi Oil contract.

According to a June 29, 2003, memorandum from the U.S. embassy in Kuwait, Altanmia's General Manager, Waleed Al-Humaidhi, told embassy officials "that he and his employees were pressured to provide unnamed KBR executives with 'kickbacks' on the

redacted from the State Department documents, it is unclear whether Ms. Robertson received these particular e-mails.

³⁰ Letter from Michael D. Kohn to Les Brownlee, Acting Secretary of the Army (Oct. 21, 2004).

³¹ *Id.*

³² *Id.*

humanitarian fuel contract.”³³ Mr. Al-Humaidhi claimed that “his refusal to provide ‘kickbacks’ to KBR executives” was “the real reason” why Altanmia was disqualified from a winter fuel subcontract.³⁴ According to the memorandum, Mr. Al-Humaidhi “fears being ‘blacklisted’ by KBR for having drawn attention to what he alleges are improprieties.”³⁵

A summary of an August 4, 2003, meeting between embassy officials and Altanmia officers relates Altanmia’s claim that it is “common knowledge” that coalition and KBR officers “are on the take; that they solicit bribes openly; that anyone visiting their seaside villas at the Kuwaiti Hilton who offers to provide services will be asked for a bribe.”³⁶ At the meeting, Altanmia officers also alleged that a senior KBR executive’s wife received a \$26,000 watch “gratis, from the real estate company to which it is alleged KBR pays double the market rate for its office space in Kuwait City.”³⁷ Embassy officials confirmed portions of this account after interviewing a Hilton manager. According to an embassy document, the chief operating officer for KBR’s Middle East operations demanded that the hotel replace the “diamond-encrusted” watch his wife allegedly lost, stating, “get off your f&^%ing ass, put my wife in a car, and go get her a watch.”³⁸

The Altanmia officers also reported that a senior KBR employee was fired for complaining “to senior KBR management about corruption” and that “KBR employees are smuggling discounted-price ‘stolen’ crude out of Iraq in USG provided tanker trucks for personal gain.”³⁹

An October 23, 2003, embassy e-mail refers to “under-the-table stuff that Altanmia from time to time has alleged.”⁴⁰ Another State Department document notes that Mr. Al-Humaidhi “asserts in private” that “KBR officers expect a kickback” but that Altanmia “would deny it if asked.”⁴¹ On one occasion, Mr. Al-Humaidhi apparently did deny it, telling embassy officials

³³ U.S. Department of State memorandum (June 29, 2003).

³⁴ *Id.*

³⁵ *Id.*

³⁶ U.S. Department of State, *Charges of KBR Improprieties* (undated).

³⁷ *Id.*

³⁸ U.S. State Department, *KBR/Watch Incident Document* (Mar. 6, 2004) (describing date of incident as either August 8, 2003 or August 15, 2003).

³⁹ U.S. Department of State, *supra* note 36.

⁴⁰ U.S. Department of State e-mail (Oct. 23, 2003).

⁴¹ U.S. Department of State, *Nature of the Dispute* (undated).

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that Altanmia merely assumed that kickbacks were demanded and that “no one from KBR ever requested any extra-contractual considerations.”⁴²

Conclusion

Under your leadership, the Committee held several days of productive hearings on the contracts for the reconstruction of Iraq, including Halliburton’s Restore Iraqi Oil contract. In light of the new evidence the Committee has received, I believe that additional hearings are needed. Our continuing oversight responsibilities require that we examine the evidence that senior Administration officials pressured career contracting officers, as well as the new allegations of kickbacks and corruption.

Sincerely,



Henry A. Waxman
Ranking Minority Member

⁴² U.S. Department of State memorandum (July 2, 2003).