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April 10, 2007

The Honorable Condoleezza Rice
Secretary of State
U.S. Department of State
2201 C Street, NW
Washington, DC 20520

Dear Madam Secretary:

U.S. taxpayers have spent billions of dollars on the reconstruction of Iraq, and the Iraqis have committed significant amounts of their own funds, but persistent allegations of Iraqi corruption and inadequate U.S. oversight have undermined these reconstruction efforts. I am writing to bring to your attention new reports of corruption in one critical reconstruction sector, the Iraqi oil sector.

The Committee has received information regarding efforts by Iraqi officials at the State Oil Marketing Organization (SOMO) to extort money from an American company, Lloyd-Owen International (LOI). In June 2004, SOMO contracted with LOI to provide security services to truck convoys transporting gasoline from Kuwait into Iraq. Under this arrangement, the contractor delivered over 400 million gallons of gasoline. The contractor reports that Iraqi payments from June 2004 through December 2005 were sporadic and occasionally incomplete. Payments halted completely between December 2005 and July 2006, according to the contractor.¹ As a result, the contractor reports that it is owed nearly \$3 million for the transportation of gasoline in 2005 and 2006.²

The contractor also reports that Iraqi officials have, on at least three separate occasions, attempted to solicit bribes in exchange for payments that are past due. On one occasion, the contractor official was asked to pay a \$650,000 "commission" if he wanted to receive the full \$3

¹ Letter from V. John Ella, Mansfield Tanick & Cohen, Attorneys at Law, to His Excellency Samir Sumaidaie, Iraqi Ambassador to the United States (Sept. 21, 2006).

² *Id.*

million owed to LOI.³ On another occasion, Iraqi officials demanded a bribe of 50% of the invoice due as a “contribution” to a private charity.⁴ The contractor reports that it has refused to pay these bribes. As a result, it has not received any further Iraqi payments and has halted service.⁵

Corruption has been identified as one of the most significant obstacles to successful reconstruction and the restoration of civil society in Iraq. Reports by the State Department Inspector General,⁶ the Special Inspector General for Iraq Reconstruction,⁷ and the Government Accountability Office⁸ all warn that addressing the problem of corruption is critical to the success of the U.S. mission in Iraq. International organizations have also found Iraqi corruption to be a critical concern.⁹

³ E-mail from Alan Waller, CEO, Lloyd-Owen International to Staff, House Committee on Oversight and Government Reform (Feb. 25, 2007).

⁴ E-mail from Alan Waller, CEO, Lloyd-Owen International to Staff, House Committee on Oversight and Government Reform (Mar. 16 2007).

⁵ E-mail from Alan Waller, *supra* Note 3.

⁶ *See, e.g.*, Office of Inspector General, U.S. Department of State, *Survey of Anticorruption Programs, Embassy Baghdad, Iraq* (ISP-IQO-06-50) (Aug. 2006) (noting that “[c]orruption is second only to the insurgency as a threat to success in forging Iraqi democracy”); Office of Inspector General, U.S. Department of State, *Inspection of Rule-of-Law Programs* (ISP-IQO-06-01) (Oct. 2005) (concluding that “basic to the success of all U.S. hopes for democracy and good governance in Iraq is an effective anticorruption regime”).

⁷ *See, e.g.*, Office of the Special Inspector General for Iraq Reconstruction, *Joint Survey of the U.S. Embassy-Iraq’s Anticorruption Program* (SIGIR-06-021) (July 28, 2006) (concluding that “Corruption in Iraq siphons resources from needed government services and reduces the willingness of international investors to invest in Iraq. It has been identified as a major barrier to establishing citizens’ trust and confidence in their government and to improving economic growth and prosperity. Unless reforms are put in place, corruption may jeopardize the political stability of the new government).

⁸ *See, e.g.*, U.S. Government Accountability Office, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight* (GAO-07-308SP) (Jan. 9, 2007) (finding that “[c]orruption in Iraq is reportedly widespread and poses a major challenge to building an effective Iraqi government and could jeopardize future flows of needed international assistance”).

⁹ *See, e.g.*, United Nations and World Bank, *Joint Iraq Needs Assessments* (Oct. 2003) (identifying the establishment of safeguards against Iraqi corruption as an “immediate need”), and Transparency International, *Corruption Perception Index (CPI) 2006* (Nov. 6, 2006) (finding Iraq to be the third most corrupt government on the planet).

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The effect of corruption in Iraq's oil sector is particularly problematic because of its central importance to the Iraqi economy. GAO has noted that "about 10 percent to 30 percent of refined fuels is diverted to the black market or is smuggled out of Iraq and sold for a profit."¹⁰ And the Inspector General of the Iraqi Oil Ministry has concluded that corruption in the oil sector "depletes the state budget of its available funds and undermine the country's capacity for development and growth as well as for improving living conditions."¹¹ All of these problems have a direct impact on the U.S. taxpayer.

I ask that you investigate the allegations of Iraqi corruption raised by LOI and, if you confirm evidence of corruption, take action to resolve the issues. Additionally, I request a briefing for my staff on or before April 20, 2007, on the status of this case and any other reports of corruption related to the Iraqi oil sector.

Please have your staff contact Christopher Davis or Theodore Chuang of the Committee's staff at (202) 225-5420 with any questions and to schedule the requested briefing.

Sincerely,



Henry A. Waxman
Chairman

cc: Tom Davis
Ranking Minority Member

¹⁰ Government Accountability Office, *supra* Note 8.

¹¹ Office of the Inspector General, Ministry of Oil, Iraq, *Smuggling Crude Oil and Oil Products: Second Transparency Report* (2006).