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August 8, 2008

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

Dear Madam Secretary:

On Tuesday, the Government Accountability Office reported that by the end of this year Iraq may amass a budget surplus of between \$67 billion and \$79 billion as a result of windfall oil sale revenues.

This is roughly the same amount U.S. consumers have paid to purchase Iraqi oil since the war began. According to data provided by the Energy Information Administration, the United States is the single largest purchaser of Iraqi oil, and U.S. consumers will have spent between \$70 billion and \$74 billion to purchase Iraqi oil by the end of this year.

This means U.S. consumers have been paying record gas prices at the pump to build up Iraq's massive budget surplus. At the same time, U.S. taxpayers have paid \$48 billion to fund Iraq's reconstruction. I am writing to ask what steps the Bush Administration is taking to ensure that Iraq contributes its fair share to finance the reconstruction.

Iraq's Budget Surplus

On August 5, 2008, GAO issued a report concluding that Iraq may accumulate a budget surplus of up to \$79 billion by the end of this year as a result of windfall oil sale profits.¹

The GAO report explained that the vast majority of Iraq's revenues since the war began have been from the sale of oil. GAO stated:

¹ U.S. Government Accountability Office, *Stabilizing and Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus* (GAO-08-1031) (Aug. 5, 2008).

Iraq has an estimated 115 billion barrels of crude oil reserves — the third largest in the world. Oil export revenues are critical to Iraq's economy, accounting for over half of the country's gross domestic product and over 90 percent of its revenues.²

GAO also explained that Iraq's oil revenues have increased dramatically because of "surging oil prices."³ Rather than spending these revenues, however, Iraq has deposited these funds into various banks. GAO stated:

As of December 31, 2007, the Iraqi government had accumulated financial deposits of \$29.4 billion, held in the Development Fund for Iraq and central government deposits at the Central Bank of Iraq and Iraq's commercial banks.⁴

GAO estimated that these surpluses would more than double this year. GAO reported:

For 2008, we estimate a budget surplus of between \$38.2 billion to \$50.3 billion based on our projections for revenue and expenditures.⁵

Combining these amounts, GAO concluded that Iraq may have a budget surplus of between \$67.2 billion and \$79.3 billion by the end of 2008. GAO calculated these surpluses after subtracting all Iraqi operating and investment activities.

After reviewing the GAO report, the Treasury Department's Deputy Assistant Secretary for the Middle East and Africa agreed that it "presents a credible picture of Iraq's cumulative budget surpluses."⁶ He also stated: "Iraq has more than adequate funds to make and maintain capital investments that deliver services and create conditions that foster economic growth."⁷

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *Id.* (explaining that "2008 projections are based on actual sales through June 2008 and projections for July to December that assume an export price for Iraqi oil ranging from \$96.88 to \$125.29 per barrel and oil export volumes ranging from 1.89 to 2.01 million barrels per day").

⁶ Letter from Andy Baukol, Deputy Assistant Secretary, Middle East and Africa, U.S. Department of the Treasury, to Joseph A. Christoff, Director, International Affairs and Trade, Government Accountability Office (July 28, 2008).

⁷ *Id.*

U.S. Purchases of Iraqi Oil

According to data provided by the Energy Information Administration, by the end of this year, U.S. consumers will have paid between \$70 billion and \$74 billion to purchase Iraqi oil since the war began, which is roughly the same amount as Iraq's budget surplus.

The Energy Information Administration is an independent statistical and analytical agency within the U.S. Department of Energy that was created by Congress in 1977 "to provide policy-neutral data, forecasts, and analyses to promote sound policy making, efficient markets, and public understanding regarding energy and its interaction with the economy and the environment."⁸ The Energy Information Administration is charged with collecting and reporting data in a manner that is independent from review by executive branch officials.⁹

According to the Energy Information Administration, the United States is the single largest purchaser of Iraqi oil. Table 1 lists the top five importers of Iraqi oil over the past 12 months.

⁸ *About the Energy Information Administration*, U.S. Department of Energy (accessed Aug. 6, 2008) (online at www.eia.doe.gov/neic/aboutEIA/aboutus.html).

⁹ The Department of Energy Organization Act, Public Law 95-91, sec. 205(d) ("The Administrator shall not be required to obtain the approval of any other officer or employee of the Department in connection with the collection or analysis of any information; nor shall the Administrator be required, prior to publication, to obtain the approval of any other officer or employee of the United States with respect to the substance of any statistical or forecasting technical reports which he has prepared in accordance with law").

Country	Barrels Per Year
United States	202.2 million
Italy	71.8 million
South Korea	48.2 million
France	23.1 million
Canada	22.1 million

According to the Energy Information Administration, the United States spent approximately \$46.2 billion to purchase Iraqi oil from 2003 to 2007.¹¹ The Energy Information Administration reports that from January through May 2008, U.S. oil purchases from Iraq totaled approximately \$10 billion. For the remainder of 2008, U.S. oil purchases from Iraq may range from \$13.9 billion to \$18 billion, based on low and high oil prices projected by GAO.¹² Table 2 shows the actual and projected U.S. oil purchases from Iraq by year.

¹⁰ Energy Information Administration, *International Petroleum (Oil) Imports and Exports* (accessed Aug. 7, 2008) (online at www.eia.doe.gov/emeu/international/oiltrade.html).

¹¹ Energy Information Administration, *Iraq Kirkuk Netback Price at U.S. Gulf* (accessed Aug. 7, 2008) (online at <http://tonto.eia.doe.gov/dnav/pet/hist/wepckirkw.htm>) (calculating monthly U.S. oil purchases from Iraq based on average weekly prices for each month); Energy Information Administration, *U.S. Imports by Country of Origin* (accessed Aug. 7, 2008) (online at http://tonto.eia.doe.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbbbl_m.htm).

¹² *Id.* (using GAO assumptions of export prices ranging from \$96.88 to \$125.29 per barrel and average export volume to the United States from January to May 2008 of 0.672 million barrels per day, as reported by the Energy Information Administration).

Table 2: U.S. Purchases of Iraqi Oil		
Year	Dollars	
2003		\$4,644,286,508
2004		\$7,976,929,623
2005		\$9,346,814,716
2006		\$12,230,045,720
2007		\$12,032,687,260
Jan. – May 2008		\$10,007,890,250
June – Dec. 2008	\$13,923,826,112 <i>(low estimate)</i>	\$18,006,979,496 <i>(high estimate)</i>
Total	\$70,162,480,189 <i>(low estimate)</i>	\$74,245,633,573 <i>(high estimate)</i>

Based on this data, U.S. consumers will have spent between \$70.2 billion and \$74.2 billion to purchase oil from Iraq since the beginning of the war, which is roughly the same amount Iraq will have amassed as budget surplus during this time, according to GAO. Figures A and B show the growth of Iraq’s budget surplus compared to cumulative U.S. oil purchases from Iraq since the start of the war in 2003.

Figure A

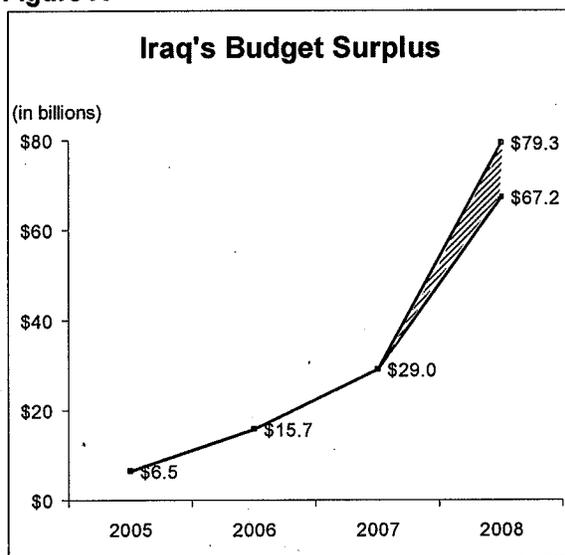
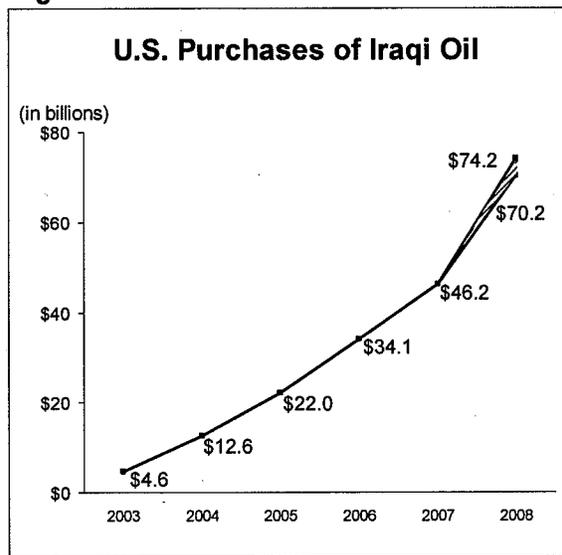


Figure B



Iraq Reconstruction Financing

When making its case for war, the Bush Administration promised the American people that Iraq's oil revenues would pay for the country's reconstruction. For example, on March 27, 2003, a week after the war began, Deputy Secretary of Defense Paul Wolfowitz testified before the House Appropriations Committee that Iraq's reconstruction would be financed through Iraqi oil revenues. He stated: "We are dealing with a country that can really finance its own reconstruction and relatively soon."¹³

While the United States has spent vast amounts on Iraq's reconstruction, Iraq has not made similar investments. According to GAO's report:

Since fiscal year 2003, Congress has appropriated about \$48 billion to U.S. agencies to finance stabilization and reconstruction efforts in Iraq, including developing Iraq's security forces, enhancing Iraq's capacity to govern, and rebuilding Iraq's oil, electricity, and water sectors, among others.¹⁴

In contrast, GAO reported:

The Iraqi government spent about \$947 million, or 1 percent of its total expenditures for the maintenance of Iraqi- and U.S.-funded investments. These expenses include maintenance of roads, bridges, vehicles, buildings, water and electricity installations, and weapons.¹⁵

Request for Briefing

According to GAO, U.S. taxpayers have now spent \$48 billion on Iraqi reconstruction. But the Bush Administration has not insisted that Iraq pay for this reconstruction. Instead, Iraq is amassing a budget surplus of up to \$79 billion as U.S. consumers have been paying record prices for Iraqi oil.

Based on this information, it appears that U.S. taxpayers are paying twice — once through their taxes to pay for Iraq's reconstruction and a second time at the pump to help build Iraq's massive surplus.

¹³ House Committee on Appropriations, Subcommittee on Defense, Testimony of Deputy Defense Secretary Paul Wolfowitz, *Hearing on Administration's FY 2003 Supplemental Budget Request*, 108th Cong. (Mar. 27, 2003) (H. Rept. 108-055).

¹⁴ U.S. Government Accountability Office, *Stabilizing and Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus* (GAO-08-1031) (Aug. 5, 2008).

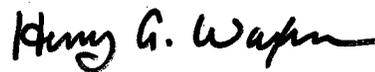
¹⁵ *Id.*

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For these reasons, I request that you designate appropriate State Department representatives to provide a briefing to Committee staff regarding efforts undertaken by the State Department to date, or proposals that are under consideration for the future, to ensure equitable financing for Iraq's reconstruction. I ask that you provide this briefing by September 5, 2008.

The Committee on Oversight and Government Reform is the principal oversight committee in the House of Representatives and has broad oversight jurisdiction as set forth in House Rule X. If you have any questions, please contact David Rapallo or Ali Golden with the Committee staff at (202) 225-5420.

Sincerely,



Henry A. Waxman
Chairman

cc: Tom Davis
Ranking Minority Member