

Iraq

THE \$87 BILLION MONEY PIT

It's the boldest reconstruction project since the Marshall Plan. And we cannot afford to fail. But where are the billions really going?

**BY ROD NORDLAND AND
MICHAEL HIRSH**

HELMUT DOLL waits. And waits. Doll, the German site manager for Babcock Power, a subcontractor of Siemens, is hoping for the arrival of Bechtel engineers at the Daura power plant, Baghdad's largest. U.S. construction giant Bechtel has the prime contract, now worth about \$1 billion, for restoring Iraq's infrastructure. That includes Daura, which should supply one third of the city's generating capacity but today, six months into the U.S. occupation, is producing only 10 percent. "Nobody is working on the turbine," explains Doll. "Bechtel only came and took photos. We can't judge Bechtel's work progress because they're not here." Questioned, Bechtel spokesman



LION



VAST WRECKAGE:
An Iraqi child at
play near the ruins
of Baghdad's main
telecom facility

TERU KUWAYAMA—CORBIS

Iraq

Howard Menaker says Iraq's power has to be viewed as "a holistic system"—generation doesn't have to come from a particular plant—and in recent weeks Bechtel has sent engineers to the site. He also blames the delay on more stringent—or finicky, depending on your point of view—American standards. Menaker said the Daura turbine is "covered with friable asbestos and is right now a hazardous work site." The company says it has just completed "a protocol for asbestos abatement."

Still, it's not easy determining why the biggest power plant in Iraq's largest city seems to be such a low priority. Baghdad is still beset by blackouts, and so much of America's success or failure depends on power: the economy can't recover without it. The next logical place to ask is the U.S. Agency for International Development, which gave Bechtel the contract last April. Questioned by NEWSWEEK about Daura, USAID chief Andrew Natsios referred to a priority list drawn up by a coordinating committee under the Coalition Provisional Authority—the chief occupying power—and said he didn't know where Daura was on it. His aide said the CPA would know. No, Natsios said, he thought Bechtel would know. But Bechtel's Menaker responded: "We perform the work tasked to us by USAID. We don't make decisions on priorities. USAID and CPA make those decisions." Some CPA officials concede privately that the problem stems from the lack of preparation before the war. "It always comes back to the same thing: no plan," says one CPA staffer.

No doubt, reconstructing postwar Iraq is a brutally hard and hazardous task. Sabotage already has destroyed some 700 power-transmission towers. But George W. Bush, who has staked his nation's credibility—and perhaps his presidency—on success in Iraq, has no choice but to set things right. And Daura offers a small window into problems that have become all too typical of America's postwar morass in Iraq, a NEWSWEEK investigation shows. Iraqis like to point out that after the 1991 war, Saddam restored the badly destroyed electric grid in only three months. Some six months after Bush declared an end to major hostilities, a much more ambitious and costly American effort has yet to get to that point. It is only in recent weeks that



PHOTOGRAPH BY YOLA MUMUKHWA FOR NEWSWEEK

OUT OF ORDER: The nation's big export earner, the energy industry, has been crippled by looting and sabotage

the Coalition amped up to the power-generation level that Saddam achieved last March—4,400 megawatts for the country (though it's since dropped back). True, Saddam didn't have a guerrilla war to contend with, and his power infrastructure was in much better shape than the Americans found it. But he also had far fewer resources.

Six months ago the administration decided to cut corners on normal bidding procedures and hand over large contracts to defense contractors like Bechtel and Halliburton on a limited-bid or no-bid basis. It bypassed the Iraqis and didn't worry much about accountability to Congress. The plan was for "blitzkrieg" reconstruction. But by sacrificing accountability for speed, America is not achieving either very well right now. For months no one has seemed to be fully in charge of postwar planning. There has been so little transparency that even at the White House "it was almost

U.S. taxpayers are footing most of the bill for this ill will, despite some \$13 billion in grants and loans pledged at a U.N. conference



LIVE AND LEARN: This Baghdad school wasn't ready to reopen last week, so the kids pitched in to paint it

PHOTOGRAPH BY ROBERT KING—POLARIS FOR NEWSWEEK

ed Nations—the fate he wanted to avoid. Even many Iraqis who are grateful for liberation say they hate being a U.S. protectorate. Three months after Bush declared “Bring ‘em on,” attacks on Americans have increased from 20 to 25 or 30 a day, according to Gen. Ricardo Sanchez, the U.S. military commander for Iraq. And American taxpayers are footing most of the bill for this ill will, despite some \$13 billion pledged at a U.N. donors’ conference last week. The tally just through 2004, including what was spent to wage the war, will likely be at least \$130 billion.

U.S. officials protest, as always, that they’re getting bad press. Natsios insists electricity regeneration is on schedule. “This is the fastest and most massive reconstruction effort that has been run by any government in the last 50 years,” says Natsios, one of the most respected development specialists in Washington. “It’s faster than the Marshall Plan.” Yet even Sanchez conceded last week that his biggest concern was “the pace at which we are making progress: we need to accelerate it.” In recent weeks the CPA and USAID have declared that contracts will be competitively bid now. And, stung by congressional criticism, CPA chief L. Paul Bremer and Natsios recently installed new accountability controls. Still, world bodies such as the United Nations want more transparency.

impossible to get a sense of what was happening” on the power problem, says one official privy to the discussions.

Numerous allegations of overspending, favoritism and corruption have surfaced. Halliburton, a major defense contractor once run by Vice President Dick Cheney, has been accused of gouging prices on imported fuel—charging \$1.59 a gallon while the Iraqis “get up to speed,” when the Iraqi national oil company says it can now buy it at no more than 98 cents a gallon. (The difference is about \$300 million.) Cronies of Iraqi exile leader Ahmad Chalabi, NEWSWEEK has learned, were recently awarded a large chunk of a major contract for mobile telecommunications networks.

All this has called into question the Bush administration’s larger agenda: inspiring gratitude and admiration in the hearts of Iraqis and other Arabs, creating a model for a troubled region. Perhaps the biggest irony for the man in overall command, Defense Secretary Donald Rumsfeld, is that he has long warned of the pitfalls of “nation-building.” “A large foreign presence,” Rumsfeld has said in criticizing previous U.N.-led efforts, means “economies remain unreformed, distorted and dependent.” Now the beleaguered Pentagon chief may be creating for himself—with U.S. companies, not the Unit-

bogged down even further, stymied by turf fights and bean counters? NEWSWEEK’s investigation indicates that there may be just as many problems ahead, raising serious questions about the vast amounts of money Bush has demanded for Iraq with little tolerance for debate.

Disorganization And Turf Battles

THE BUSH ADMINISTRATION’S FAVORITE STATISTIC from Iraq is the 1,595 schools it has just finished rehabilitating. This is, after all, the human face of occupation—freshly painted walls, American know-how and generosity, all wrapped up in smiling, adorable faces. And though that number is still less than a fifth of Iraq’s 10,000 schools, it seems like amazingly fast work. The problem: many of the “reha-

bilitated” schools don’t look ready for the morning bell. NEWSWEEK visited five schools in Baghdad’s Camp Sara neighborhood, all of which were among those listed as rebuilt, all by different Iraqi contractors working for Bechtel. None had enough textbooks, desks or blackboards. Most had refuse everywhere, nonfunctioning toilets and desks made for two kids that were accommodating four. Even Ahmed Majid Jassim, a pro-U.S. headmaster who says that “Americans have made a great effort,” comments, “I’ve seen rebuilt schools, and this isn’t one of them.”

It’s not quite as bad as the suspiciously sandy U.S. concrete that caused schools in South Vietnam to collapse in the 1960s, generating support for the Viet Cong. But the good-will project is also not creating quite as much pro-American enthusiasm as the Bushies would like. What’s the problem? A lack of accountability, it seems. One Iraqi construction engineer who worked on school projects says it’s not that Iraqi firms are corrupt and incompetent. To meet the U.S. deadline for fast refurbishment, the occupation authority

set a short time frame, then Bechtel hired contractors, who in turn hired subcontractors and even sub-subcontractors. But few U.S. officials seemed to follow up with oversight. As one USAID official admits, “Saddam had better accountability” in his economic affairs, as brutal as he was, than the CPA does. Bechtel proudly points out that 102 of its 140 USAID contracts were subbed to Iraqi firms. But many of these sub-subcontractors cut corners as they tried to meet Bechtel’s very short deadline. “The original tender for our school called for air conditioners in every classroom,” said an Iraqi engineer named Marwan. Once the subcontractor got it, it was an air cooler. “Once we got it, it was a ceiling fan for \$11 apiece.” At the Al Qaqa primary school, headmistress Haibat Abdul Hussein said the Iraqi contractor walked off the job shortly after starting, leaving the school a mess of construction debris and in-



Join Michael Hirsh for a Live Talk on Wednesday, Oct. 29, at noon, ET, on Newsweek.MSNBC.com

OPINION

When it comes to footing the bill for Iraq, Washington ought to take a cue from Shakespeare, and not play financial games

Neither a Borrower Nor ...

BY ALLAN SLOAN

Washington has a knack for fiscal folly. It’s the place that created the Social Security trust fund, which has no funds and can’t be trusted. It let George W. Bush reduce the stated cost of his tax cuts by pretending they will expire rather than become permanent. And now, it’s trying to pretend we can get something for nothing when it comes to paying for the Iraq war.

Let’s start with Bush’s plan to get foreigners to lend us money for the war, rather than our paying cash for it. Bush doesn’t say this, of course, but it’s what his policy amounts to. We’ve just run the biggest federal budget deficit ever: \$530 billion, if you include the money that the rest of the government borrowed from Social Security’s alleged trust fund.

Bush wants an extra \$87 billion for the war at the same time that he’s cutting taxes and hitting up foreigners for contributions. We’re supposed to have shared sacrifice between civilians and military when we’re at war. Our troops are sacrificing in Iraq and



PAULA BRONSTEIN—GETTY IMAGES

COLOR OF MONEY: The new Iraqi currency, without Saddam’s face

Afghanistan—but aside from reservists’ families, civilians aren’t sacrificing on the home front. Bush argues that lower taxes mean a stronger economy for returning soldiers. But outsize government borrowings undermine the economy long-term.

Because foreigners finance a growing part of our deficit, we’re in effect asking them to lend us money for the war. Which way do you think we’re more secure in the long term? Having our kids in hock to the eyeballs to foreigners who financed our war? Or paying

cash now? Looks like an easy call.

Now, \$87 billion is a lot of money. But it’s not a lot compared with the three rounds of Bush tax cuts, which total about \$3 trillion. According to a study by the Tax Policy Center, a liberal think tank whose numbers are universally respected by budget techies, we could raise close to \$87 billion a year with a 5.25 percent surcharge on income-tax bills. For every \$1,000 of income tax you pay, you’d fork over an extra \$52.50. Tax rates would still be well below their 2002 levels. We

could leave the war tax in place until our major Iraq expenses are over. Or mix and match by partly rolling back some of the other cuts. It’s certainly not enough to even begin to derail the economy.

Bush’s idea of fighting a war on borrowed money, bad as it is, looks positively brilliant compared with Washington’s newest fantasy: making \$10 billion of our aid to Iraq a loan rather than a grant. The Senate has adopted this idea and the House has more or less approved it. Bush, to his credit, opposes it as being futile and counterproductive. Which it would be.

The word “loan” makes for good sound bites, but it’s nuts. First, it damages us in the eyes of the world because it’s greedy and unseemly: how can you invade another country, hire your own people to fix it and stick the invadees with the tab? Second, who’s going to sign the I.O.U. on behalf of the Iraqi people? Finally, “lending” \$10 billion to Iraq rather than just forking over the cash won’t save us any real money. Debt-ridden Iraq is almost certain to default. The Congressional Budget Office, which rules on such things, would doubtless count all or almost all of the \$10 billion as a budget expense because of the small likelihood of the loan’s being repaid.

So let’s suck up our gut and pay instead of looking for a free lunch. This argument has nothing to do with whether we should have invaded Iraq or what we should do now that we’re there. It’s about money, not politics.

Where It Goes ...

Bush's \$87 billion proposal to rebuild Iraq was met with skepticism in Congress due to hefty reconstruction and military costs.

PRIOR U.S. SUCCESSES AND FAILURES



Heavy damage in Iraq

A History of Nation-Building

The first two years of reconstruction efforts are often riddled with obstacles. Has the United States learned from the past?

Country	Total external aid (billions)	Postcombat deaths	Lessons learned
IRAQ 2003	\$20.3*	Since May 1, 125	Too soon to tell, but can reconstruction succeed without better security?
Germany 1946-1947	11.5	45	Democracy can be transferred—military forces can help
Bosnia 1996-1997	4.5	0	Organized crime and political extremism hinder reconstruction
Japan 1946-1947	4.1	0	Unilateral nation-building is simpler (but more expensive)
Afghanistan 2002-present	2.2	34	Low initial funding yields shaky security and economic growth
Kosovo 2000-2001	1.4	0	Broad participation can be compatible with U.S. leadership
Haiti 1995-1996	1	4	Building competent democratic administrations takes time

SOURCE: "AMERICA'S ROLE IN NATION-BUILDING," RAND CORP.; PENTAGON. *U.S. AID ONLY, EXCLUDES \$13 BILLION IN FOREIGN PLEDGES. † FOR IRAQI RECONSTRUCTION. \$799 MILLION PROPOSED FOR AFGHANISTAN AND REMAINDER FOR MISC. STATE DEPT. FUNCTIONS.

complete work. "I can't deal with this anymore; I don't even know what happened. All I know is they said the Americans told them to stop working," she said. She planned to organize a demonstration in front of the school in protest.

Similar confusion may have exacerbated the power crisis. As one USAID official describes it, it's "a chicken-and-egg problem." The power stations need natural gas and (to a lesser degree) oil to run, but the oil refineries and wells need power to operate. Still, there seems to have been less than full coordination between Bechtel, which is responsible for electricity, and Halliburton, which has an open-ended contract to secure fuel: Halliburton says it has not been asked to supply fuel for restarting the refineries. Disputes between U.N.- and U.S.-authorized companies also obstruct progress. At the key port of Umm Qasr, Bechtel and its subcontractors left in frustration when a Turkish company—previous-

THE BREAKDOWN

\$65.6 billion

MILITARY COSTS: The majority of the proposal is for the Department of Defense:

- \$41.1 BILLION:** Ops & maint.
- \$17.8 BILLION:** Personnel costs
- \$5.4 BILLION:** Procurement
- \$624 MILLION:** Fuel and repairs
- \$412 MILLION:** Construction
- \$360 MILLION:** Other

\$20.3 billion†

RECONSTRUCTION COSTS: Funds go to the Iraq Relief and Reconstruction Fund for use by the Coalition Provisional Authority.

- \$5.67 BILLION:** Electricity
- \$5.13 BILLION:** Security (justice system and Iraqi police)
- \$3.7 BILLION:** Public works
- \$2.1 BILLION:** Rehabilitate and repair oil infrastructure
- \$875 MILLION:** Water resources
- \$850 MILLION:** Health
- \$835 MILLION:** Transportation and telecommunications
- \$470 MILLION:** Housing
- \$353 MILLION:** Private sector
- \$300 MILLION:** Human rights



Safety First

Funds for outfitting, feeding and transporting the 156,000 soldiers serving in Operation Iraqi Freedom are included in the military portion of the plan.

ly contracted through the United Nations—suddenly appeared, claiming it had rights to the job. Though the port is operating, needed dredging and wreck salvage have been held up while the dispute is resolved.

A British Christian aid group last week accused the CPA of not accounting for \$4 billion of the \$5 billion it has spent, most of which came from Iraqi oil proceeds. The lack of transparency is not surprising: the CPA and United Nations took six months to agree on an international monitoring board called for under U.N. Resolution 1483. "There's certainly the suspicion that what the Iraqi oil is being used for right now is not to the benefit of the Iraqi people but to the benefit of American corporations," says one of the aid group's spokesmen, John Davison. "This is quite controversial, considering that many people around the world have been saying that 'it's all about the oil.' So you would have

Bechtel points out that 102 of its 140 USAID contracts were subbed to Iraqi firms, two thirds of them for school rehab work

... How It's Spent

U.S. companies are contracted to oversee most of the reconstruction work in Iraq—they charge more than local Iraqi firms.

IRAQI VS. U.S. JOBS

Local Labor

It's cheaper to hire Iraqis for reconstruction projects

UNEQUAL PAY: Non-Iraqi security guards make \$1,200 per day working for U.S. companies in Iraq—144 times that of Iraqi guards, who make \$250 per month.

British or U.S. security guard:

 **\$1,200 PER DAY**

Iraqi security guard:

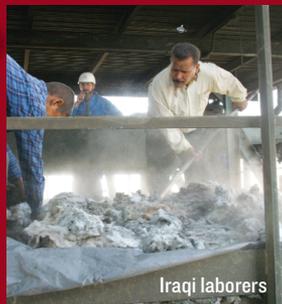
 **\$8.33 PER DAY**



SKILLED LABOR: Iraqi engineers working for U.S. companies earn only \$1,000 per month—nearly the equivalent of what an American engineer at the same firm earns in a day.

WHAT CRITICS SAY

Waste Not



Iraqi laborers

Congressional Dems are raising eyebrows at price tags

SOME EXAMPLES:

REPAIR: U.S. engineers estimated \$15 million for repairs on a cement plant in northern Iraq. The project was given to local Iraqis instead, and done for \$80,000.

REBUILD: Big-biz contractors refurbished 20 police stations in Basra for \$25 million. An Iraqi official contends locals could have done it for \$5 million.

RENOVATE: The homes of 10 Iraqi officials in Baghdad were renovated for \$700,000. Local firms could have built 10 new homes for the same price.

CONTENTIOUS COSTS

Iraq's Luxury Items?

A slew of other expenditures have sparked debate, as some wonder if the administration is setting its sights too high.

\$33,000

PER PICKUP TRUCK:
\$2.64 million for 80 vehicles



\$9 million

ZIP CODES: Numbered postal system throughout the country

\$150 million

HOSPITAL: Initial cost for \$700 million children's facility in Basra



\$6,000

PER RADIO OR PHONE: \$3.6 million for 400 radios and 200 phones

\$50 million

TRAFFIC POLICE: Buildings and vehicles to support Iraq's traffic cops



\$1 million

MEMORIAL: "Memory Foundation" to record Saddam's atrocities

\$50,000

PER PRISON BED: \$400 million for two new 4,000-bed prisons



\$333

PER COMPUTER COURSE:
\$40 million total for training Iraqis

SOURCES: OFFICE OF MANAGEMENT AND BUDGET, PROGRAM EXEC. OFFICE SOLDIER; SENATE DEM. POLICY COMM.; REP. WAXMAN CORRESPONDENCE WITH OMB. GRAPHIC BY KARL GUDE.

—MEREDITH SADIN

thought that this would be treated with a great deal of care.”

Meanwhile a turf fight between USAID and the CPA has led Bremer to insist that the CPA take over the dispensing of some rebuilding contracts (though Natsios says he's been reassured that the new CPA office "is not meant to replace USAID"). That may not solve anything: contractors in Iraq complain that the CPA's staff consists largely of political appointees who don't understand the process. "CPA is run by a bunch of political hacks and incompetents who have no idea what they're doing," said a project manager for a firm working on a major USAID contract. "Every time we turn around there's a new order coming from CPA, 'Do it this way—no, do it that way instead.' It's just unbelievable." Privately, some CPA officials admit the staff is less than the best the United States has to offer. Right now, "we're not talking A-team, even B-team. We're talking C-team," says one official with the CPA. The Bush administration denies that any major changes are afoot, but all these problems have prompted a new reckoning back in Washington: Douglas Feith, Rumsfeld's policy chief and a key official involved in postwar planning, is no longer sitting in on reconstruction meetings, NEWSWEEK has learned, and the White House has wrested oversight from the Pentagon.

Reconstructing Under Fire

WHAT'S LIFE LIKE FOR AN AMERICAN BUSINESSMAN or contractor in Iraq? If you're from Halliburton's Kellogg Brown & Root, you're installed in the prized Green Zone, Baghdad's Beverly Hills. That's the four-square-mile patch of downtown where the CPA is headquartered under heavy U.S. military guard. Bechtel is there as well, holed up in Uday Hussein's former villa on the Tigris. But smaller companies or those that arrived too late to scoop up prime real estate—that's wherever the U.S. military is—are dug into one of the many hotels around town under heavy guard. You'll know you're approaching one when you see tall concrete barriers, known as blast walls, and chicanes, which are obstacle courses designed to create traffic jams.

FROM TOP: FORD—AP. PHOTOGRAPH BY ROBERT KING—POLARIS FOR NEWSWEEK, BRIAN BRANCH—PRICE—AP, ALI HAIDER—AP. MARIO TAMA—GETTY IMAGES, MURAD SEZER—AP, TONY NICOLETTI—AP—POOL, MANISH SWARUP—AP, BRUCE EDWARDS—FLINT JOURNAL—AP

If you're berthed in either the Palestine or the Sheraton hotels, the only ones guarded by American troops 24/7, you'll have to make a two-mile detour through extremely heavy traffic to get around the blocked-off streets to the lone access point. First your car will pass through a series of concrete barriers guaranteed to make sure you crawl at five miles an hour. Then you'll see the now closed riverside boulevard, Abu Nawass Street, and you'll be staring down the cannon of an M1A1 Abrams tank leveled at chest height. From there, no matter how important you are, you'll walk with your bags to the first American checkpoint. It's next to the sidewalk, where there's a double row of concrete blast walls and huge wire-meshed sandbags; they form a sort of tunnel without a roof, 100 yards long, with machine guns covering it. There you'll be searched under the supervision of American soldiers, who are so tired of the drill they often deputize street kids to pat you down, while an Iraqi policeman looks in your bag. Your mobile phones will be disassembled, other electronics taken apart, bags

opened on the ground. At the end of this process you'll find yourself in one of these two former government-run hotels, with grim and dirty rooms, and dangerously bad food, and few amenities other than the tanks outside.

After checking in, your first stop should be the American Consulate at the Iraqi Convention Center, just inside the Green Zone. To enter, you have to walk down a narrow pathway for about 100 yards between two double rolls of concertina wire, so close together you have to be careful not to snag your safari shirt. This is designed to keep Iraqis in a straight line, and possibly also to prevent a frontal assault on the first American Army position. Then you'll pass through three Army posts by zigzagging through sandbags. This search is very intimate, involving pats from the waist down of all your body parts except one—often very aggressively. At the front door of the convention center you'll be searched again by Iraqi security guards under the eyes of soldiers. Do not complain if the searcher accidentally grabs your privates;

PROGRESS

Lewis Lucke came out of retirement to help rebuild Iraq. He won't let gunmen and 16-hour days diminish his enthusiasm.

A Man With a Mission

Jet-lagged but upbeat as ever, Lewis Lucke clambers through the rubble of Al-Mamun switching station. American missiles blasted the place four times during the war, then looters stripped and torched it. Now the facility is almost ready to reconnect Baghdad's phones with the outside world—if all goes well. Three weeks ago an anti-U.S. guerrilla tried to undo the repairs with a rocket-propelled grenade, but it was a dud. Lucke, chief of Iraq operations for the U.S. Agency for International Development, shrugs. "This is a high-visibility site," he says. "We never doubted that they'd try to blow it up."

Lucke is one of those can-do Americans who want to make a difference in Iraq, and who haven't lost faith that democracy will prevail. The 24-year USAID veteran came out of retirement to begin planning the reconstruction effort four months before the invasion. His life has been one long scramble ever since. He and his staff work 16 hours a day, seven days a week, helping to fix not only the country's phone system



PHOTOGRAPH BY ROBERT KING—POLARIS FOR NEWSWEEK

SURVEYING THE DAMAGE: Lucke at Al-Mamun switching station

but its electricity, water and other vital services, all on an emergency schedule. Security concerns keep them mostly in the Green Zone, behind well-guarded barriers in Baghdad. "It's certainly the most challenging thing I've ever worked on," says Lucke, who has done development work in some of the world's poorest spots, including Mali and Haiti.

Yet Lucke wishes there were more attention given to U.S. successes in Iraq. He just got back from visiting his wife and three kids in Texas for the first time

since last November, and while he was there, he was upset by what he saw of the media's Iraq coverage. "I don't understand why they're portraying the reconstruction effort as some kind of looming failure," he says. "It's not. There's a lot of progress here that doesn't lend itself to sound bites, the way attacks on convoys do."

Lucke takes special pride in the revival of Iraq's schools. When USAID arrived last April, they had no desks, no blackboards. Lucke's goal was to reopen 1,000 schools before the end of

September. "We ended up getting 1,595 done," he says. "We kicked major butt." The repair crews had to cut corners, and many of the jobs were done in slapdash style: no heat or air conditioning was installed, and even in the capital, many schoolhouses remain infested with termites. But that's an improvement. "Saddam didn't even renovate a school for eight years," says Qusai Delbozy, a Baghdad subcontractor. "We never received a contract like this when he was in power."

The dictator let just about everything fall apart, citing severe international sanctions on his regime even as he kept building palaces and monuments. "The electrical system was held together by Band-Aids and baling wire," says Lucke. "The Iraqis are very capable people. They kept all these systems going for decades with very little outside assistance." Such resourcefulness is exactly what the country needs now. But can the Iraqis create a working democracy? "The thing we have to struggle against is the American tendency to think this is like a baseball game, you play a few hours and you win or you lose," says Lucke. "This is a long-term process—and that's not in any way an excuse." He clearly has the necessary determination. Whether the rest of America does is another question. As is how much longer the Iraqis' welcome—such as it is—will last.

CHRISTIAN CARYL in Baghdad and JOHN BARRY in Washington



PHOTOGRAPH BY GEERT VAN KESTEREN FOR NEWSWEEK

LOOKING FOR PROBLEMS: A woman in Tikrit tries to give a key to U.S. troops conducting a door-to-door weapons search with no translator

you will be considered a troublemaker and searched again. If you're meeting with anyone important inside, you'll be searched yet again and have your belongings sniffed by dogs.

All that, just to stay in touch with your CPA overseers who are supposed to be monitoring your work. Meetings with Iraqi subcontractors must take place outside the Green Zone, and in person: only foreigners as yet have mobile phones provided by an early MCI contract. And as religiously as tourists might consult their guidebooks, contractors are expected to peruse the CPA Operational Threat Update, which has useful pieces of advice, such as how to drive in a convoy ("avoid having more than one vehicle in the kill zone at a time"). Most of Baghdad is zoned "red," or dangerous.

Such is the life of a U.S. contractor in Iraq, and one reason U.S. taxpayers are forking over top dollar to have them there. Despite the allegations about expensive fuel imports that have made headlines recently, there may be little outright price gouging. Much of what companies are charging is for hazardous duty (at major engineering companies, that means 45 percent extra, taking engineers up to nearly \$900 for a 10-hour day). Air freight is expensive because of the high insurance premiums. Land freight has to contend with highway robbery on a massive scale; no major highway can be considered safe. And while so far no American contractors have been attacked except when they were traveling with a military convoy, they're hardly considered off-limits by opposition guerrillas and terrorists. While some foreign business-

men go out without escorts, most do not; normally they'll travel with a PSD (personal security detail) of at least two and sometimes more expatriate armed guards. PSDs are staffed with "operatives" who normally bill \$1,200 a day for their services. The security problem hampers accountability as well: USAID's own inspector general refuses to send its auditors to "a combat zone," as spokesman Rob Perkins describes Iraq.

Iraqis have their own hurdles. Baghdad has a weekly job fair for companies that want to make tender bids, but Iraqis who attend find enormously long lines, and little to repay the effort. "This is ridiculous," said Hesham Barbary, an American-Egyptian who is the representative for H & K Ltd., a large Egyptian company, as he waited at one such Kellogg Brown & Root tender meeting. "The time it took to get in this place was longer than the meeting. All of the tenders they're offering are things you can walk into any shop and buy," like paper clips.

The bottom line is that danger sows distrust. The new Iraqi minister of telecommunications, Haider Jawad al-Ibadi, told NEWSWEEK that his technicians, who are desperately trying to repair the Iraqi telephone system, keep getting detained by the U.S. military. Soldiers, he says, recently came and arrested his own bodyguards without explanation. He said this sort of harassment is repeated at all levels of society every day, "and there's no one you can go to complain to. If this continues as it is, this can end in disaster. The Americans are losing their integrity in Iraqi eyes."

The CPA proposed to pay a salary of \$140,000 to a South African zookeeper while up to 75 percent of Iraqis go jobless



WAITING FOR BECHTEL: The disabled Daura power plant, which should supply a third of Baghdad's electricity, is putting out only 10 percent

Waste, Fraud And Abuse

A MERICAN COMPANIES ARE BARRED BY LAW FROM paying bribes or taking kickbacks abroad. But Iraq is still largely a lawless place. And one company director for a British firm doing business in Baghdad says that makes all the difference. "I've never seen corruption like this by expatriate businessmen. It's like a feeding frenzy," he says. One prominent Iraqi businessman said he was told he'd have to raise his bid by \$750,000 to get a major contract, so long as he kicked back that amount to the contractor's rep. The businessman refused to identify the contractor, but did say, "No Iraqi would ask for a bribe that big." NEWSWEEK witnessed such behavior directly: An Iraqi-Anglo joint venture did a relatively small job in the magazine's Baghdad bureau. When a final price had been agreed, the company's Iraqi manager said, "Shall we add a commission of 10 percent?" Commission? "Well, you would keep that of course," he said. In other words, a kickback. When NEWSWEEK declined, he said, "You're the first one who didn't want a commission."

Numerous allegations of wastage and overcharging have also surfaced. Halliburton, a chief U.S. contractor under intense scrutiny for its ties to Cheney, has been accused of gouging prices on imported fuel—charging \$1.59 a gallon to import nearly 200 million gallons of gasoline. SOMO, the Iraqi national oil company, indicated it can buy the same fuel at no more than 98 cents a gallon. "Why

they don't have the Iraqis bring it in rather than have Halliburton charge high prices for it, I don't know," says a Democratic official on the Government Reform Committee, which first raised the issue. Wendy Hall, a Halliburton spokeswoman, said that Halliburton's KBR subsidiary had to settle for higher prices because it could negotiate only on a 30-day basis. But oil economist Phil Verleger said that constraint should amount to only a penny or so per gallon difference for fuel. Hall said the company "can't identify our suppliers for security reasons."

Behnam Polis, the Iraqi minister of Transportation, told NEWSWEEK that another American contractor, Stevedoring Services of America, was overcharging in its administration of Umm Qasr. "They're unloading cargo at \$12 a ton. That's a lot." Ports in Dubai and Kuwait do it for \$3 a ton," he said. "A lot of ships are not coming because it costs too much." Polis said he thinks part of the problem is that the company's contract runs until the end of the year, and it is guaranteed the money no matter how much work it does. That's nonsense, responds SSA spokesman Bob Waters: yes, SSA originally set high cargo tariffs to make the port "self-sustaining." But now, he says, Polis's own ministry is responsible—and hasn't changed the prices.

It is true that Polis and other Iraqis are gaining power over contracts. But the push to hand over things to the new Iraqi Governing Coalition and its ministries is creating problems of its own. The Iraqi telecom minister, Haider Jawad al-Ibadi, told NEWSWEEK that a lucrative contract to run mobile communications in Iraq's south was given to a consortium that includes Djila, a company run by Mudhar Shawkat and his son Ali. Shawkat is the top aide to Governing Council member Ahmad Chalabi in the Iraqi National Congress, a former opposition group. A senior source with the Iraqi National Congress said: "If we or anyone else can help our companies land a contract, why not?"

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How to Make It Work Better

TAMARA DAGESTANI IS AN IRAQI DISSIDENT WHO HAS become as fierce a critic of the Americans as she once was of Saddam. Like many Iraqis, she's angry at what she sees as American arrogance and cultural insensitivity. What really raises Dagestani's hackles, though, is the lack of jobs for Iraqi workers, especially skilled ones. Despite L. Paul Bremer's new push to get contractors to hire Iraqis—"We realized that if they're not working for us, they're shooting at us," one administration official said—the Iraqi Governing Council estimates unemployment is still as high as 75 percent. "After the first gulf war, there was no access for foreign workers, no access to spare parts, but bridges were rebuilt, telephone and electricity restored. Quicker than Kuwait rebuilt," Dagestani says. "I feel very sad this is not being accomplished now. We've got the talent, the ability, the brains—give the people the jobs and they'll do it."

They will. Perhaps the greatest failure of America's postwar adventure in Iraq was in not distinguishing between what the Iraqis can and should do and where they need help. On democracy and

governance, America can certainly assist: 30 years of totalitarian rule has left Iraqis bereft of that experience. And on security, of course: for another year at least the Iraqi Army will be far from ready; just one battalion so far has been formed. Yet Rumsfeld's Pentagon used to make a point of saying that Iraqis were far more sophisticated and educated than, say, Afghans, and that Iraq's economic recovery would be far more self-sustaining. So why the top-heavy presence of foreign corporations? Even in finance, a six-bank consortium led by J.P. Morgan is accused of crowding out Iraqi banks. This domination by outsiders seems to be crimping the very free-market Iraq that George W. Bush says he wants to create—and requiring far more Americans on the ground. That creates more targets for Iraq's growing numbers of disaffected militants. It's far more expensive to: Iraq's many unemployed engineers get paid less than one tenth what their American counterparts receive.

Instead, the administration, harking back to the occupation of Japan and Germany, has fought off the international community's demands for a faster handover to the Iraqis. The open-ended nature of the occupation, combined with Washington's refusal to explain in detail what its plans for Iraq are, continues to generate ill will, especially among Iraqis.

The Bush administration can certainly point to a number of successes: many sewage lines have been restored (about 1,700 have been repaired in Baghdad alone, Natsios says proudly), and there are ample food supplies. The Coalition authorities also deserve credit for handing over some operations to the Iraqis. At Baghdad's Mamun central switching station, it's Iraqi technicians,

working under the Ministry of Communications, who have painstakingly spliced together 50,000 paper-insulated phone lines. Says Bechtel site manager Ben Cravey: "They put them together like that," and snaps his fingers. So perhaps George W. Bush should heed the words of a 13-year-old schoolgirl who attends one of those Bechtel-renovated schools, with new equipment supplied by the U.S. government. "In the old days they would have made me carry a bag with Saddam's face on it," she told her uncle, an Iraqi translator. "Now they're making me carry one with an American flag." The child resents it, her uncle says. And that should hardly surprise any red-blooded American. The United States wants a free Iraq? Well, then, it should free the Iraqis to do what they can do best.

With CHRISTIAN CARYL, BABAK DEGHANPISHEH and PEYMAN PEJAN in Baghdad

GUARD DUTY: An Iraqi under U.S. detention last week after a predawn raid on a farmhouse outside Tikrit



NIKOLA SOLIC—REUTERS