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High Payments to Halliburton for Fuel in Iraq

By DON VAN NATTA Jr.

The United States government is paying the Halliburton Company an average of $2.64 a gallon to import gasoline and other fuel to Iraq from Kuwait, more than twice what others are paying to truck in Kuwaiti fuel, government documents show.

Halliburton, which has the exclusive United States contract to import fuel into Iraq, subcontracts the work to a Kuwaiti firm, government officials said. But Halliburton gets 26 cents a gallon for its overhead and fee, according to documents from the Army Corps of Engineers.

The cost of the imported fuel first came to public attention in October when two senior Democrats in Congress criticized Halliburton, the huge Houston-based oil-field services company, for "inflating gasoline prices at a great cost to American taxpayers." At the time, it was estimated that Halliburton was charging the United States government and Iraq's oil-for-food program an average of about $1.60 a gallon for fuel available for 71 cents wholesale.

But a breakdown of fuel costs, contained in Army Corps documents recently provided to Democratic Congressional investigators and shared with The New York Times, shows that Halliburton is charging $2.64 for a gallon of fuel it imports from Kuwait and $1.24 per gallon for fuel from Turkey.

A spokeswoman for Halliburton, Wendy Hall, defended the company's pricing. "It is expensive to purchase, ship, and deliver fuel into a wartime situation, especially when you are limited by short-duration contracting," she said. She said the company's Kellogg Brown & Root unit, which administers the contract, must work in a "hazardous" and "hostile environment," and that its profit on the contract is small.

The price of fuel sold in Iraq, set by the government, is 5 cents to 15 cents a gallon. The price is a political issue, and has not been raised to avoid another hardship for Iraqis.

The Iraqi state oil company and the Pentagon's Defense Energy Support Center import fuel from Kuwait for less than half of Halliburton's price, the records show.

Ms. Hall said Halliburton's subcontractor had had more than 20 trucks damaged or stolen, nine drivers injured and one driver killed when making fuel runs into Iraq.

She said the contract was also expensive because it was hard to find a company with the trucks necessary to move the fuel, and because Halliburton is only able to negotiate a 30-day contract for fuel. "It is not as simple as dropping by a service station for a fill-up," she said.

A spokesman for the Army Corps of Engineers, Bob Faletti, also defended the price of imported fuel.

"Everyone is talking about high costs, but no one is talking about the dangers, or the number of fuel trucks that have been blown up," Mr. Faletti said. "That's the reason it is so expensive." He said recent government audits had found no improprieties in the Halliburton contract.

Gasoline imports are one of the largest costs of Iraqi reconstruction efforts so far. Although Iraq sits on the third-largest oil reserves in the world, production has been hampered by pipeline sabotage, power failures and an antiquated infrastructure that was hurt by 11 years of United Nations sanctions.

Nearly $500 million has already been spent to bring gas, benzene and other fuels into Iraq, according to the corps. And as part of the $87 billion package for Iraq and Afghanistan that President Bush signed last month, $18.6 billion will be spent on reconstruction projects, including $690 million for gasoline and other fuel imports in 2004.

From May to late October, Halliburton imported about 61 million gallons of fuel from Kuwait and about 179 million from Turkey, at a total cost of more than $383 million.

A company's profits on the transport and sale of gasoline are usually razor-thin, with companies losing contracts if they overbid by half a penny a gallon. Independent experts who reviewed Halliburton's percentage of its gas importation contract said the company's 26-cent charge per gallon of gas from Kuwait appeared to be extremely high.

"I have never seen anything like this in my life," said Phil Verleger, a California oil economist and the president of the consulting firm PK Verleger LLC. "That's a monopoly premium — that's the only term to describe it. Every logistical firm or oil subsidiary in the United States and Europe would salivate to have that sort of contract."

In March, Halliburton was awarded a no-competition contract to repair Iraq's oil industry, and it has already received more than $1.4 billion in work. That award has been the focus of Congressional scrutiny in part because Vice President Dick Cheney is Halliburton's former chief executive officer. As part of its contract, Halliburton began importing fuel in the spring when gasoline was in short supply in large Iraqi cities.

The government's accounting shows that Halliburton paid its Kuwait subcontractor $1.17 a gallon, when it was selling for 71 cents a gallon wholesale in the Middle East.

In addition, Halliburton is paying $1.21 a gallon to transport the fuel an estimated 400 miles from Kuwait to Iraq, the documents show. It is paying 22 cents a gallon to transport gas into Iraq from Turkey.

The 26 cents a gallon it keeps includes a 2-cent fee and 24 cents for "mark-up costs," the documents show. The mark-up portion is intended to cover the overhead for administering the contract.

Ms. Hall of Halliburton said it was "misleading" for the corps to call it a mark-up. "This simply means overhead costs, which includes the general and administrative costs like light bulbs, paper and employees," she said. "These costs are specifically allowable under the contract with the Corps of Engineers, are defined by detailed regulations, and are scrutinized and approved by U.S. government auditors."

In recent weeks, the costs of importing fuel from Kuwait have risen. Figures provided recently to Congressional investigators by the corps show that Halliburton was charging as much as $3.06 per gallon for fuel from Kuwait in late November.

If the corps concludes that Halliburton has successfully administered the gas contract, it could be paid an additional 5 percent of the total value of the gas it imported.

Halliburton's Kuwait subcontractor was hired in May. Halliburton and the Army Corps of Engineers refused to identify the company, citing security reasons. Aides to Representative Henry A. Waxman, the California Democrat who has been a critic of the fuel contract, said government officials had identified it as the Altanmia Commercial Marketing Company. Several independent petroleum experts in the Middle East and the United States said they had not heard of Altanmia.

Copies of the Army Corps documents were given to Mr. Waxman's office, which provided them to The Times.

Iraqi's state oil company, SOMO, pays 96 cents a gallon to bring in gas, which includes the cost of gasoline and transportation costs, the aides to Mr. Waxman said. The gasoline transported by SOMO — and by Halliburton's subcontractor — are delivered to the same depots in Iraq and often use the same military escorts.

The Pentagon's Defense Energy Support Center pays $1.08 to $1.19 per gallon for the gas it imports from Kuwait, Congressional aides said. That includes the price of the gas and its transportation costs.

The money for Halliburton's gas contract has come principally from the United Nations oil-for-food program, though some of the costs have been borne by American taxpayers. In the appropriations bill signed by Mr. Bush last month, taxpayers will subsidize all gas importation costs beginning early next year.

In an interview on Tuesday, Mr. Waxman responded to the latest information on to costs of the Halliburton contract. "It's inexcusable that Americans are being charged absurdly high prices to buy gasoline for Iraqis and outrageous that the White House is letting it happen," he said.

