

United States Senate

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Committee on Homeland Security and Governmental Affairs

Norm Coleman, Chairman

Carl Levin, Ranking Minority Member

**REPORT ON OIL ALLOCATIONS
GRANTED TO
VLADIMIR ZHIRINOVSKY**

**PREPARED BY THE
MAJORITY AND MINORITY STAFFS
OF THE
PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS**



**RELEASED IN CONJUNCTION WITH THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
MAY 17, 2005, HEARING**

***OIL FOR INFLUENCE: HOW SADDAM USED OIL TO
REWARD POLITICIANS AND TERRORIST ENTITIES UNDER THE
UNITED NATIONS OIL-FOR-FOOD PROGRAM***

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This Report presents the evidence gathered by the U.S. Senate Permanent Subcommittee on Investigations (the “Subcommittee”) establishing that Russian official Vladimir Zhirinovsky was granted lucrative allocations of oil from the Hussein regime under the U.N. Oil for Food Program.¹ In addition, this Report reveals how Zhirinovsky assigned those allocations to Bayoil, an American oil trader, for commissions of hundreds of thousands – if not millions – of dollars.² More importantly, the Subcommittee’s evidence demonstrates that, in giving money to Zhirinovsky, Bayoil knew that it was paying a Russian official on behalf of the Hussein regime – in short, the Subcommittee’s evidence establishes that Bayoil knowingly acted as a conduit between Saddam Hussein and Vladimir Zhirinovsky. Finally, this Report details how Zhirinovsky, Bayoil and certain Russian entities paid millions of dollars in illegal, under-the-table surcharges to the Hussein regime in connection with these oil transactions.

The evidence contained in this Report includes at least 6 documents related to oil allocations signed by Vladimir Zhirinovsky himself. In addition, the evidence includes more than 30 documents from the Iraqi Ministry of Oil that expressly identify Vladimir Zhirinovsky or his political party. That evidence is presented below.

I. BACKGROUND

A. Saddam’s Manipulation of the Oil for Food Program

Under the Oil for Food Program, Iraq was permitted to sell its oil and use those proceeds to purchase food, medicines, and other humanitarian goods. Despite Oil for Food’s noble intentions, the Hussein regime quickly exploited the Program for its own political purposes. One of its chief manipulations was the exploitation of “oil allocations” to garner political influence around the globe.³

To understand how the Hussein regime manipulated these oil transactions, one must begin with how Iraq sold its crude oil under the Program. The arm of the Iraqi government that managed the sale of Iraqi crude oil was the State Oil Marketing Organization, commonly called “SOMO.” In order to manage the volume of oil flowing through its pipelines, the Iraqis divided its oil supply into discrete units, typically ranging from 1 to 10 million barrels. They then allocated these units to prospective oil purchasers, essentially giving those recipients an option to purchase that allotment of oil. These options are typically called “allocations.” Assuming that SOMO and the purchaser could agree on other contractual terms, such as the loading schedule,

¹ The term “Oil for Food Program” refers to the program implemented pursuant to United Nations Security Council Resolution 986, dated April 14, 1995, and the Memorandum of Understanding between the United Nations and the Government of Iraq on May 20, 1996. Throughout this Report, the Oil for Food Program may be called the “Program” and the “OFF Program.”

² The term “Bayoil” refers to the Houston-based oil trading company Bayoil (USA) Inc., and its subsidiaries and affiliates, such as Bayoil Supply and Trading Limited, Bayoil Technologies, and Bayoil SA.

³ For a more complete discussion of the oil allocation process and how Saddam Hussein's regime manipulated that process, please see the testimony of Mark L. Greenblatt, Counsel to the Permanent Subcommittee on Investigations, before the Subcommittee, dated November 15, 2004.

the purchaser would contract with SOMO and proceed to buy the oil from Iraq.⁴ The Iraqis repeated this allocation process for each of the 13 phases of the Oil for Food Program.

Soon after the initiation of the Oil for Food Program, the Hussein regime manipulated this allocation process to maximize Iraq's influence around the world. As one Hussein regime official described the scheme, Saddam used oil to his geopolitical and strategic advantage.⁵ The plan was simple: rather than granting allocations to traditional oil purchasers, Iraq gave priority to foreign officials, journalists, and even terrorist entities.⁶ The central purpose of this tactic, according to senior officials of the Hussein regime interviewed by the Subcommittee, was to engender international support for the Hussein regime and against the U.N.'s sanctions.⁷

By allocating the oil to favored people or entities, the regime forced oil purchasers to obtain allocations from those favored few. Those allocation holders essentially became gatekeepers to Iraqi oil. As gatekeepers, they demanded a "commission," which typically ranged from 3 to 30 cents per barrel. In light of the fact that most allocations consisted of millions of barrels of oil, such commissions were quite lucrative, reaching hundreds of thousands of dollars per allocation. Therefore, these allocations were extremely valuable, and by doling them out to favored individuals and entities, the Hussein regime could siphon millions of dollars to a foreign official, journalist, or terrorist entity – *without actually paying a dime*.

In an interview with the U.S. Treasury Iraqi Financial Asset Team, a Hussein regime official described how Saddam Hussein devised this plan in simple terms:

[The source] stated that Saddam Hussein began to utilize the Memorandum of Understanding [the Oil for Food Program] to sell oil to people who supported him. [The source] explained that this was done in order to enhance the power of Saddam Hussein. Saddam Hussein instructed that the price [of oil] should be made as low as possible and made beneficial to his supporters. Inside SOMO this system was nicknamed the "Saddam Bribery System."⁸

⁴ Oil purchases under the Oil for Food Program were quite different from typical oil transactions. In particular, the U.N. was heavily involved in the sale of Iraqi oil under the Oil for Food Program. For instance, the U.N.'s Oil Overseers had to approve contracts signed between SOMO and oil purchasers, and participated in the setting and approval of the price for Iraqi oil. U.N. agents were also tasked with inspecting and verifying the loading of oil at authorized oil terminals. In addition, the proceeds from oil sales were held in escrow in a U.N.-monitored account at BNP Paribas, and could be used only to purchase approved goods under the Program.

⁵ Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

⁶ Subcommittee Interview of Deputy Prime Minister Tariq Aziz, April 21, 2005; Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005. Terrorist individuals and entities who received allocations include the Popular Front for the Liberation of Palestine, Abu Abbas, and the Mujahedeen-e Khalq.

⁷ *Id.*

⁸ Memorandum of Interview of former regime official by U.S. Treasury Iraqi Financial Asset Team on March 24, 2004 (Interview #50). In order to protect the sources and methods used to obtain this evidence, memoranda of

Other senior members of the Hussein regime confirmed that the “Saddam Bribery System” used oil allocations to buy political influence around the world. For instance, the Vice President of the Hussein regime, Taha Yassin Ramadan, confirmed to the Subcommittee that the allocations were indeed “compensation for support.”⁹ The Vice President also confirmed that “I know these people [i.e., allocation grantees] get [a] benefit.”¹⁰ Another senior Hussein official confirmed that the allocation scheme was “buying influence.”¹¹ When asked whether allocation recipients would make a profit from the oil transactions, that official declared: “That’s the whole point.”¹²

The Hussein regime used these lucrative allocations in its primary political struggle – ending U.N. sanctions. To that end, it primarily favored those individuals and entities from countries on the U.N. Security Council. Senior Hussein regime officials and numerous Ministry of Oil documents confirm that the regime steered a massive portion of its allocations toward Security Council members that were believed by the Hussein regime to support Iraq in its efforts to lift sanctions – namely, Russia, France, and China.¹³ For example, several Oil Ministry charts expressly separate the allocation recipients by country and specify whether the country is a permanent member of the Security Council. Russia, a permanent member of the Security Council, was consistently the largest recipient of oil allocations and, according to one Hussein regime official, this affinity for Russia resulted from Saddam’s desire to show “gratitude” to the Russians for their support at the U.N. Security Council.¹⁴ To ensure that the profits of the oil transactions would remain in the favored country, allocations recipients were required to assign their oil rights to purchasers in their country.¹⁵ For instance, in one document examined below, the Iraqis instructed Zhirinovskiy that a Russian company, not an American one, must contract for the oil allotted to him.

The recipients of the allocations were determined by a committee of Saddam Hussein’s closest advisors, including Deputy Prime Minister Tariq Aziz and the Minister of Oil Amir Muhammad Rashid.¹⁶ The committee was led by the Vice President of Iraq, Taha Yassin

interviews conducted by the Subcommittee and the U.S. Treasury Iraqi Financial Asset Team are not included as exhibits to this Report.

⁹ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005.

¹⁰ *Id.*

¹¹ Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005; *see also* Subcommittee Interview of Deputy Prime Minister Tariq Aziz, April 21, 2005; Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

¹² Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

¹³ Subcommittee Interview of Deputy Prime Minister Tariq Aziz, April 21, 2005; Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005 (describing a “priority list” of countries that were supportive of Iraq and were granted preferential treatment in oil allocations); Comprehensive Report of the Special Advisor to the DCI on Iraq’s WMD dated September 30, 2004, Volume 1 (“Duelfer Report”), p. 31.

¹⁴ Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

¹⁵ *Id.*

¹⁶ Subcommittee Interview of Deputy Prime Minister Tariq Aziz, April 21, 2005; Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

Ramadan.¹⁷ Every six months, the committee would meet to review the allocations and make decisions concerning allocations in the upcoming phase.¹⁸ The committee would evaluate “Special Requests” made by individuals around the world who were soliciting allocations.¹⁹ The principal criterion for granting the “Special Requests” – *i.e.*, granting an allocation – was the individual’s support for Iraq.²⁰ Once the committee determined the allocations for the upcoming phase, the Vice President would generally discuss the allocations with Saddam Hussein.²¹

B. Zhirinovsky’s Political Career

A prominent politician in Russia, Vladimir Zhirinovsky has long championed an ultra-nationalist, anti-West agenda. Zhirinovsky founded the Liberal Democratic Party of Russia (commonly called the “LDPR”) in 1990 and ran for President of Russia in 1991, 1995, and 2000. Known for fiery rhetoric, Zhirinovsky gained only 8% of the popular vote in the 1991 presidential race. In the parliamentary elections of 1993, however, the LDPR stunned the world by winning 23% of Russian votes and became the second-largest faction in the Duma. In 1995, Zhirinovsky wrote a book entitled “I Spit on the West,” which the LDPR called “a literary work” and a “philosophical book.” In 1995, the meteoric rise of LDPR and Zhirinovsky slowed a bit, and Zhirinovsky won only 6% of the popular vote in the presidential race. In addition, LDPR’s representation in the Duma dropped to 11%, making it the third largest faction in the parliament. The LDPR lost additional Duma seats in 1999, and Zhirinovsky’s bid for president in 2000 netted him a meager 2.7% of the vote. In 2003, however, Zhirinovsky’s party improved its standing, capturing 12% of the Duma. According to a December 2003 article in the Washington Post, Zhirinovsky was “back in vogue in Russian politics.”²²

Recently, Zhirinovsky became involved in yet another controversy. On March 30, 2005, Zhirinovsky reportedly started a fistfight with opposing members of the Duma.²³ During the brawl, Zhirinovsky spit on another parliamentarian. Zhirinovsky allegedly received a concussion in the melee. As a result of his misconduct, he was barred from speaking in the Duma for a month.²⁴

C. Zhirinovsky’s Relationship with the Hussein Regime

For years, Zhirinovsky was a tireless and vocal supporter of Saddam Hussein’s regime. For example, when negotiations concerning the Oil for Food Program were underway in 1995, Zhirinovsky led a delegation of 50 people to Baghdad and called for the immediate end to U.N. sanctions against Iraq.²⁵ During the trip, he met with Saddam Hussein, Deputy Prime Minister

¹⁷ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

¹⁸ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² See Washington Post, “Russia Votes as Putin Says,” December 9, 2003.

²³ See Herald Sun (Australia), “Zhirinovsky sanctioned after Duma spat,” March 30, 2005.

²⁴ *Id.*

²⁵ See Mideast Mirror, “An Arab Day of Solidarity with Iraq,” February 28, 1995.

Tariq Aziz and Speaker of the National Assembly Saadi Mehdi Saleh.²⁶ He signed “an agreement on cooperation between the parliament of Iraq and the LDPR faction.”²⁷ In addition, he signed an agreement on “inter-party ties” between the Hussein-controlled Baath Party and the LDPR.²⁵

In August 1996, just a few months before the onset of the Oil for Food Program, Zhirinovskiy made a 3-day visit to Iraq.²⁶ During the trip, he met with Saddam Hussein, Tariq Aziz and the Minister of Trade, offering pledges of support in Iraq’s effort to end U.N. sanctions. Zhirinovskiy reportedly told Hussein that his political party, the LDPR, and Russian nationalist forces “favor the development of relations between Iraq and Russia.”²⁷

Such pro-Iraq comments were commonplace for Zhirinovskiy, especially during his frequent trips to Iraq. Over the life of the Oil for Food Program, Zhirinovskiy traveled to Iraq on at least 16 occasions. Those visits followed a similar pattern, in which Zhirinovskiy would lead a delegation of Russian politicians to Baghdad, meet with Saddam Hussein, Tariq Aziz or other senior members of the Hussein regime, and would frequently declare his support for the Hussein regime and denounce U.N. sanctions against Iraq. A handful of those trips are discussed in this Report.

II. EVIDENCE THAT VLADIMIR ZHIRINOVSKY WAS GRANTED LUCRATIVE OIL ALLOCATIONS

A. Summary of Evidence Concerning Allocations Granted to Zhirinovskiy

After the fall of the Hussein regime, the Iraqi Ministry of Oil compiled data concerning the activities of the regime during the Oil for Food Program.²⁸ In doing so, SOMO created several charts revealing who was granted oil allocations for each phase, and how much profit the allocation recipient or oil purchaser generated from the transactions.

According to these SOMO documents, the Hussein regime allocated millions of barrels of oil to Zhirinovskiy and his political party, the LDPR, under the Oil for Food Program. Those allocations occurred throughout the life of the Oil for Food Program, starting in Phase II (mid-1997) and continuing through Phase XII (late 2002). SOMO’s documents indicate that the

²⁶ See Xinhua News Agency, February 28, 1995.

²⁷ See Official Kremlin International News Broadcast, March 5, 1995.

²⁵ *Id.*

²⁶ See Agence France Presse, “Zhirinovskiy Wraps up Visit to Iraq After Pledging Support,” August 22, 1996.

²⁷ *Id.*

²⁸ See SOMO charts entitled “Table No. 1: Quantities of Crude Oil Allocated to the Companies during the Phases of the Memorandum of Understanding,” and “Table No. 3: An Estimate of the Profits the Companies and Russian Parties Made from Purchasing the Iraqi Crude Oil during the Phases of the Memorandum of Understanding.” According to numerous sources and documents, officials in the Iraqi government would routinely refer to the Oil for Food Program as “the Memorandum of Understanding,” or similar terms. This term refers to the Memorandum of Understanding executed on May 20, 1996 between the Government of Iraq and the United Nations Secretariat that governed the implementation of U.N. Security Council Resolution 986. For purposes of this Report, these charts will be called the “SOMO Allocation Charts.”

allocations were quite lucrative for Zhirinovsky and the LDPR, generating an estimated \$8.679 million.²⁹ The information in those Ministry of Oil charts is reflected in the chart below:

OIL ALLOCATIONS TO VLADIMIR ZHIRINOVSKY AND/OR HIS POLITICAL PARTY UNDER THE OIL FOR FOOD PROGRAM & ESTIMATED PROFITS			
PHASE	DATES	ALLOCATION AMOUNT	SOMO ESTIMATE OF ZHIRINOVSKY'S PROFITS
II	June 1997 – December 1997	3.6 Million	\$360,000
III	December 1997 – May 1998	7.2 Million	\$700,000
IV	May 1998 – November 1998	10 Million	\$2,000,000
V	November 1998 to May 1999	10 Million ³⁰	\$890,000
VI	May 1999 – December 1999	10 Million	\$735,000
VII	December 1999 – June 2000	6.5 Million	\$488,000
VIII	June 2000 – December 2000	9 Million	\$2,275,000
IX	December 2000 – July 2001	6 Million	(contract not performed)
X	July 2001 – November 2001	4 Million	\$833,000
XI	December 2001 – May 2002	5.5 Million	\$398,000
XII	May 2002 – December 2002	4.0 Million	(contract not performed)
Total Allocations to Zhirinovsky and Estimated Profits		75.8 Million	\$8,679,000

Senior Hussein officials that were interviewed by this Subcommittee further verified that Zhirinovsky was granted oil allocations from the Hussein regime. For instance, the Vice President of the regime, Taha Yassin Ramadan, confirmed that Zhirinovsky received allotments of oil.³¹ Another Hussein regime official confirmed not only that Zhirinovsky was granted oil allocations, but also verified that the Russian earned money on the transactions: “Of course Zhirinovsky would make a profit. That’s the whole point.”³²

²⁹ See SOMO Allocation Chart, Table No.3.

³⁰ The 10 million barrel allocation in Phase V is comprised of (i) a 3 million barrel supplemental allocation that was granted at the end of Phase IV, but lifted in Phase V, and (ii) a 7 million barrel allocation in Phase V. Those allocations are discussed in detail below.

³¹ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005.

³² Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

The Subcommittee has obtained extensive documentary evidence that Bayoil purchased the oil allocated to Zhirinovsky in Phases V, VI, VII, VIII, and X. The Subcommittee has also uncovered evidence that, in conjunction with these oil purchases, Bayoil paid millions of dollars to “Russian,” and other entities based in secrecy havens such as Cyprus. Finally, the Subcommittee has uncovered detailed evidence that Zhirinovsky, Bayoil and Russian entities made massive, under-the-table payments to the Hussein regime in connection with some of these Oil for Food transactions. This evidence is presented in detail below.

B. The First Allocation (Phase II)

1. Letter from Zhirinovsky Requesting OFF Contracts

On July 30, 1997, just a few months after the onset of the Oil for Food Program, Vladimir Zhirinovsky wrote a letter to the Iraqi Ambassador to Russia Dr. Hasan Fhami Jum’ah.³³ In that letter, Zhirinovsky reminded the Ambassador of Zhirinovsky’s vocal support for the Hussein regime and his ardent opposition to the U.N. sanctions, saying that he and the LDPR “stood firmly against the enforcement of the United Nations economic sanctions” against Iraq. Zhirinovsky then stated that, “[i]n order to balance the political situation in the world, [the LDPR] used our influence on the [Duma] to adopt resolutions that will facilitate the economic cooperation between our countries. A special resolution to lift the economic sanctions on Iraq was adopted in particular and by virtue of our party’s efforts.”

After declaring his steadfast support for the Hussein regime, Zhirinovsky then requested that the Hussein regime provide contracts under the OFF Program to his party’s “commercial institutions”:

We have commercial institutions that support the program and goals of our party, and possess true potentials and wish to supply medicine and food to the Republic of Iraq. I hope that you will consider the possibility of companies and institutions we offer to participate in the mentioned operations; I suggest adding them to your list in order to implement the above-mentioned resolution of the United Nations. I hope this will serve the ideal steps to bring our countries together; it is considered one of the important basic elements of our common understanding.

In a post-script, Zhirinovsky indicates that the LDPR contact person for these “issues” is his “assistant for economic affairs,” Mr. Kondratev.

2. Meeting between Iraqi Ambassador and Zhirinovsky’s Deputy

Ten days after Zhirinovsky’s letter, the Iraqi Ambassador met with Zhirinovsky’s deputy, Mr. Kondratev. This Ambassador later described that meeting and Zhirinovsky’s proposal in a letter to the Ministries of Foreign Affairs, Trade, and Oil.³⁴ Stating that Zhirinovsky “supports

³³ See Letter from Vladimir Zhirinovsky to Hasan Fhami Jum’ah, July 30, 1997.

³⁴ See Letter from Hasan Fhami Jum’ah to multiple recipients, August 21, 1997.

the participation of his party in the supply of medicine and food as per the Memorandum of Understanding signed between Iraq and the United Nations,” the Ambassador recounts the meeting with Zhirinovskiy’s deputy:

I met with Mr. Kondratev, deputy of Mr. Zhirinovskiy for Economic Affairs, in the presence of Trade Counsel in this embassy on 08/10/1997. Mr. Kondratev requested the possibility to fulfill the wish of the head of the Liberal Democratic Party of Russia, with whom we have strong relationships, and who has been supportive of Iraq’s position, whether at the Duma Council or in the mass popular meetings and others. We informed him that Iraq has no objection to cooperate with them according to traditional rules of trade....³⁵

3. Oil Minister’s Instruction to Grant an Allocation to Zhirinovskiy

Immediately after receiving the letters from Zhirinovskiy and the Iraqi Ambassador to Russia, the Minister of Oil forwarded the correspondence to SOMO, and instructed SOMO as follows:

You need to call our ambassador in Moscow to settle the issue of supplying them with an appropriate quantity of crude oil, taking into consideration that they have already put in a request in this regard.

SOMO responded to the Oil Minister’s instruction two days later on September 16, 1997, in a letter entitled “Contacting Mr. Vladimir Zhirinovskiy.”³⁶ According to SOMO’s letter, it held a telephone conference with the Iraqi Ambassador to Russia “in connection with allocating a quantity of crude oil to Mr. Vladimir Zhirinovskiy, head of the Liberal Democratic Party of Russia.” SOMO informed the Minister of Oil that “Zhirinovskiy’s company has not been registered yet at the United Nations.”³⁷

4. Meeting between Zhirinovskiy and Hussein Regime Regarding OFF Opportunities

One high-ranking Hussein official indicated that Zhirinovskiy visited the Iraqi embassy in Moscow in 1997 to request oil allocations.³⁸ That meeting was captured in a letter written by the Iraqi Ambassador to Russia, who described a September 18, 1997 meeting with Zhirinovskiy.³⁹

³⁵ The precise meaning of the phrase “traditional rules of trade” in the Ambassador’s letter is unclear.

³⁶ See Letter from SOMO Executive Director Saddam Zeben Hassan to Oil Minister entitled “Contacting Mr. Vladimir Zhirinovskiy,” September 16, 1997.

³⁷ This sentence suggests that the company Zhirinovskiy proposed to contract for the allocated oil had not yet obtained authorization by the U.N., as required under the rules of the Oil for Food Program.

³⁸ Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

³⁹ See Letter of Dr. Hasan Fahmi Jum’ah, Iraqi Ambassador to Russia, to the Oil Minister and SOMO, September 23, 1997.

The Ambassador stated that Zhirinovsky's assistants, including Mikhail Gutseriev, the Deputy Speaker of the Russian Duma, attended the meeting. At that conference, the Ambassador and Zhirinovsky agreed that Zhirinovsky would send "a delegation" to Iraq.

Following up on the agreement to dispatch a delegation to Iraq, Zhirinovsky wrote a letter to the Iraqi Ambassador listing the individuals that would travel to Iraq to "conduct negotiations with the government."⁴⁰ Zhirinovsky wrote, "In accordance with the agreement that was reached earlier, [I] would like to inform you, that to conduct negotiations with the government, a delegation of the following composition is being planned to be sent to Iraq." Included on that list are Mikhail Gutseriev, the Deputy Speaker of the Russian Duma, and Anatoly Gromov, a senior official of the Russian oil company called Sidanco. Notably, Zhirinovsky indicated that Gromov was "empowered to conduct negotiations and to conclude contracts of oil quotas earmarked for the Liberal Democratic Party of Russia."

The Ambassador forwarded Zhirinovsky's letter to the Ministry of Oil and the Ministry of Foreign Affairs. In that letter, the Ambassador noted that Zhirinovsky's delegation would arrive in Baghdad in late September 1997.

5. Letter from Tariq Aziz Concerning Zhirinovsky's Oil for Food Delegation

On October 1, 1997, Tariq Aziz, then Acting Foreign Minister for the Hussein regime, wrote a letter to the Minister of Oil entitled "Russian Delegation Visits the Country."⁴¹ Aziz's letter shines more light on the nature of Zhirinovsky's delegation:

[T]he Russian delegation, lead by Mikhail Gutseriev, deputy of the Duma Council leader, will arrive in the country on Sunday, 10/05/1997 to complete the contracts pertaining to oil and foods. Zhirinovsky, head of the Liberal Democratic Party of Russia, requested full support to the delegation, and mentioned that Gutseriev is his personal representative and has full authority to sign contracts.... Sidanco general manager to Iraq and the United Nations will accompany the delegation in order to buy oil on behalf of the Liberal Democratic Party.

From this letter, it is clear that Zhirinovsky was soliciting oil allocations for him and his political party under the Oil for Food Program and that he was sending a team of representatives to Baghdad to negotiate those transactions. After receiving the letter from Aziz, the Minister of Oil forwards the letter to SOMO and instructs it to "take the necessary steps to contract for the appropriate quantity." SOMO would heed this instruction within days.

⁴⁰ See Letter from Vladimir Zhirinovsky to Dr. Hasan Fahmi Jum'ah, Iraqi Ambassador to Russia, September 22, 1997. The Subcommittee obtained copies of this letter in both Arabic and Russian. Reading the two translated versions together, the Subcommittee was able to determine the contents of Zhirinovsky's letter.

⁴¹ See Letter from Tariq Aziz to Ministry of Oil, October 1, 1997.

6. Sidanco Contracts for Zhirinovsky's Allocation

On October 7, 1997, Anatoly Gromov, the Sidanco executive that Zhirinovsky had “empowered to conduct negotiations and to conclude contracts of oil quotas earmarked for the Liberal Democratic Party of Russia,” signed a contract with SOMO for the sale of 1.8 million barrels of oil.⁴² That contract was numbered M/2/32.⁴³

The day after Contract M/2/32 was signed, SOMO requested approval for the contract from the Minister of Oil.⁴⁴ At least one Hussein regime official verified that this letter was the traditional form that SOMO would use to inform the Minister of Oil of the contract and request his approval.⁴⁵ In that letter, SOMO wrote, “Please find below the details of contract signed with Sidanco Russian Co. (for Mr. Vladimir Zhirinovsky, head of the Liberal Democratic Party of Russia).” The name in parenthesis after the oil purchaser, according to several senior officials in the Hussein regime interviewed by the Subcommittee, was the name of the allocation recipient.⁴⁶ Typically, SOMO would indicate the identity of the allocation grantee by saying the contract was “for” or “on behalf of” that person or entity. In this case, the letter indicated that the oil had been allotted to “Mr. Zhirinovsky, head of the Liberal Democratic Party of Russia.” The Oil Minister approved the contract just a few days later.

7. Zhirinovsky Meets with Saddam Hussein and Tariq Aziz

A few weeks after Sidanco contracted for the oil allocated to Zhirinovsky, the Russian made two well-publicized trips to Iraq to demonstrate his support for the Hussein regime. In early December 1997, Zhirinovsky led a delegation of Russian officials to Iraq. That trip culminated in a meeting between Zhirinovsky and Saddam Hussein and Hussein's chief deputy, Tariq Aziz. During that meeting, Zhirinovsky informed Saddam of his efforts in the Russian parliament to lift the U.N.'s sanctions on Iraq and denounced U.S. aggression against Iraq.⁴⁷

A couple weeks later, Zhirinovsky led a group of 21 members of his political party to Iraq. The purpose of the trip was to deliver 5 tons of medical supplies to the Hussein regime. One party leader told Tariq Aziz that the LDPR leaders were prepared to act as human shields against any attack by the U.S. Aziz publicly thanked Zhirinovsky for his “courageous step.”⁴⁸

⁴² See SOMO Crude Oil Sales Contract No. M/2/32. Because oil contracts under the Oil for Food Program contain standard language, the Subcommittee has included the entire contract for M/2/32, but will include only the cover and signature pages of subsequent contracts.

⁴³ Oil contracts under the Oil for Food Program were numbered chronologically by phase. All contracts began with the prefixed letter ‘M,’ followed by the applicable number of the Phase of the OFF Program. The second number indicated when in the phase it had been signed. For instance, the third OFF contract in Phase VI was numbered M/6/03. Therefore, Sidanco's contract M/2/32 indicates that it was the 32nd contract executed in Phase II.

⁴⁴ See Letter from SOMO Executive Director Saddam Zeben Hassan to Oil Minister, October 8, 1997.

⁴⁵ Subcommittee Interview of Senior Hussein Regime Official No.1, April 2005.

⁴⁶ *E.g., id.*

⁴⁷ See Xinhua News Agency, “Saddam Meets Russian Party Leader,” December 8, 1997.

⁴⁸ See Associated Press, December 27, 1997.

C. The Second Allocation (Phase III)

According to the SOMO Allocation Chart discussed above, Zhirinovskiy received an allotment of 7.2 million barrels of oil in Phase III of the Program. Not surprisingly, Sidanco – the Russian company that lifted the oil allocated to Zhirinovskiy in Phase II – contracted with SOMO for precisely the same amount (7.2 million barrels).⁴⁹ After that contract was signed, Zhirinovskiy wrote to the Iraqi Ambassador to Russia informing the Iraqis that a “delegation” from Sidanco would be traveling to Iraq in March 1998, and requested that SOMO help Sidanco in executing the contract.⁵⁰ The Iraqi Ambassador then forwarded Zhirinovskiy’s request to the Executive Director of SOMO:

Mr. Vladimir Zhirinovskiy, Head of the Liberal Democratic Party of Russia, has requested help to be offered to members of the delegation of the Russian company Sidanco in order to participate in the execution of phase three of the Memorandum of Understanding of Oil for Food and Medicine. The delegation will be arriving by you on Monday, 03/16/1998. Please offer them the help and greet them.

Another Oil Ministry document indicates that Zhirinovskiy may have received a second oil allocation in Phase III. That document, a letter written by the Executive Director of SOMO to the Oil Minister, states that 3 million barrels of oil were allocated to Zhirinovskiy, and that the oil would be lifted by a Russian company called Rosebulnefte:

Please take into consideration that 3 million barrels of Kirkuk crude oil has already been allocated to the aforesaid company [Rosebulnefte] in phase three on behalf of the Liberal Party of Russia (Mr. Zhirinovskiy), who notified the company of being the one to lift the quantity that will be allocated to the Liberal Party in phase four.⁵¹

On the same day, SOMO prepared a chart that describes the allocations doled out in Phases III and IV.⁵² This chart, entitled “Quantities Allocation in Phase IV of the Memorandum of Understanding,” lists the recipients of oil allocations from the Hussein regime in Phases III and IV and indicates the amount of allotted oil for each grantee. Under the heading “Russia,” the chart reveals that an allocation was provided to Rosebulnefte. Next to the company’s name appears “Zhirinovskiy.” That chart indicates that Zhirinovskiy received an allocation of 3 million barrels in Phase III.

⁴⁹ See SOMO Crude Oil Sales Contract No. M/3/25 (cover and signature page).

⁵⁰ See Letter from Hasan Fhami Jum’ah to “The Executive Director,” March 12, 1998.

⁵¹ See Letter from Saddam Zeben Hassan to Oil Minister, June 11, 1998.

⁵² See SOMO chart entitled “Allocation of Quantities in Phase Four of the Memorandum of Understanding” (the “SOMO Phase IV Chart”).

D. The Third Allocation (Phase IV)

1. Vice-President of Iraq Approves Allocation to Zhirinovskiy in Phase IV

According to the SOMO Phase IV Chart, Zhirinovskiy was allocated another 10 million barrels in Phase IV of the Program.⁵³ A handwritten note to the Executive Director of SOMO indicates that the Vice-President of Iraq “has approved allocating the quantities as indicated in this table.” SOMO was then instructed to “take the necessary steps to carry out” the allocations.⁵⁴

2. Sidanco Contracts for Zhirinovskiy’s Oil

Although the chart described above suggests that Zhirinovskiy’s Phase IV allocation would be lifted by Rosebulnefte, later documents indicate that the allotted 10 million barrels were actually purchased by Sidanco. For instance, Sidanco signed Contract M/4/44 to purchase the same amount of oil – 10 million barrels.⁵⁵ The next day, SOMO wrote to the Minister of Oil, requesting approval for Contract M/4/44.⁵⁶ In describing that contract, SOMO makes clear that the Sidanco contract was “on behalf of [the] Liberal Democratic Party of Russia/Mr. Zhirinovskiy”:

Based on the approval of Mr. Taha Yassin Ramadhan, the vice-president of the republic, as per the statement of allocations in phase 4, please find below the details of [the] contract signed with Sidanco Russian Company (on behalf of [the] Liberal Democratic Party of Russia/Mr. Zhirinovskiy).

Additional SOMO documents confirm that Sidanco’s contract in Phase IV covered Zhirinovskiy’s allocation of oil.⁵⁷ For example, a SOMO-created chart, entitled “Exports of Iraqi Crude Oil as Per the Memorandum of Understanding/Phase IV from 6/3/1998 to 11/25/1998,” indicates that Sidanco contracted for 10 million barrels. In parentheses next to the company’s name appears “Zhirinovskiy.” The chart also indicates that 99% of the contracted volume – 9.941 million barrels of oil – was actually lifted. Of those 9.941 million barrels, 2.021 million were exported to the U.S. market.

⁵³ *Id.*

⁵⁴ Although the signature under this handwritten note is unclear, such instructions to the Executive Director of SOMO would typically come from the Minister of Oil. Examples of such instructions from the Minister of Oil to SOMO are presented below. *See, e.g.*, Handwritten notation on letter from Saddam Zeben Hassan to the Oil Minister, December 5, 1998 (presented in Footnote 61, below).

⁵⁵ *See* SOMO Crude Oil Sales Contract No. M/4/44 (cover and signature pages).

⁵⁶ *See* Letter from Saddam Zeben Hassan to Oil Minister, July 9, 1998.

⁵⁷ *See* SOMO table entitled “Exports of Iraqi Crude Oil as per the Memorandum of Understanding/Phase 4 from 6/3/1998 to 11/25/1998.”

3. Zhirinovsky Receives an Additional Allocation of 3 Million Barrels in Phase IV

On October 31, 1998, toward the end of Phase IV, the Iraqi government decided to halt dealings with the U.N. weapons inspectors. Just a few days later, Zhirinovsky met with Saddam Hussein and Tariq Aziz in Iraq for two hours.⁵⁸ Zhirinovsky pledged his support for Iraq and denounced the U.N. sanctions.⁵⁹ Moreover, soon after his return to Russia, Zhirinovsky submitted a motion to the Russian parliament that called for the lifting of sanctions against Iraq.⁶⁰

Just two weeks after Zhirinovsky's various expressions of support, the Hussein regime rewarded him with an additional allocation of 3 million barrels of oil. To that end, the Minister of Oil instructed SOMO to execute a 2-month extension of Contract M/4/44 – the Sidanco contract for Zhirinovsky's Phase IV allocation – and include an additional 3 million barrels of oil. SOMO complied with the Minister's request, and sent him a letter confirming that it had done so.⁶¹ In that letter, SOMO once again makes clear that the Sidanco contract was "on behalf of [the] Liberal Democratic Party of Russia/Mr. Zhirinovsky":

In compliance with the instructions of your Excellency to extend the validity of contracts with Russian companies for two months in phase 4, to expire on 01/25/1999, we have extended the contract signed with Sidanco Company (on behalf of [the] Liberal Democratic Party of Russia/Mr. Zhirinovsky).

The Minister of Oil approved the extension, but instructs SOMO to confirm with "the Party" that Sidanco is still acting as its representative: "You need to verify with the Party's representative that this company remains its representative."

Over the next few months, only two-thirds of the supplemental allocation (1,980,775 barrels) had apparently been lifted. Zhirinovsky, however, wanted to ensure that the rest of his allocation would be purchased. To that end, he sent a letter to SOMO's Executive Director requesting that the Iraqis extend his Phase IV allocation yet again.⁶² Zhirinovsky's letter, expressly referring to "Contract M/4/44 of [July 8, 1998]," reads as follows:

⁵⁸ See Associated Press, November 3, 1998.

⁵⁹ See BBC Summary of World Broadcasts, Republic of Iraq Radio, November 5, 1998.

⁶⁰ See Associated Press Online, "U.N. Pulls Workers From Iraq," November 11, 1998 (noting that Zhirinovsky's parliamentary motion failed).

⁶¹ See Letter from Saddam Zeben Hassan to the Oil Minister, December 5, 1998.

⁶² See Letter from Vladimir Zhirinovsky to SOMO, undated. Although the letter was undated, it was stamped as received by the Office of the Executive Director of SOMO on April 15, 1999.

We would like to refer to the above Contract [M/4/44] and to inform you that the balance of 1'019'225 [sic] US bbls of Kirkuk was left over under the above mentioned [sic] Contract after completion of the last [sic] shipment.

We would appreciate, [sic] if you agree to extend the validity of the above Contract in order to permit O.J.S.C Sidanco to perform their contractual obligations and to lift the balance.

We hope that our wishes will be favourably welcomed and assure you of our desire to be of service at all times.

Zhirinovsky's request appears to have been successful because Contract M/4/44, which was set to expire on January 25, 1999, was extended to April 30, 1999.⁶³

E. The Fourth Allocation (Phase V)

Zhirinovsky received another sizeable allocation in the next term of the OFF Program, Phase V. One SOMO chart lists the allocations doled out in Phase V, and indicates that 7.2 million barrels was "the quantity of Mr. Zhirinovsky."⁶⁴ Although Sidanco had marketed Zhirinovsky's previous allocations of oil, the contracting company for this allotment was a different Russian entity, J.S.C. Nafta Moscow.⁶⁵ Nafta Moscow's role in the transaction, however, was minimal – the company that really orchestrated this oil transaction was the American oil trading company, Bayoil.

1. Bayoil Aggressively Pursued Russian Oil Companies

In 1998, during Phases IV and V of the Program, Bayoil conducted an aggressive campaign to buy Iraqi oil under the Oil for Food Program. Bayoil's efforts were complicated, however, by the fact that the Hussein regime had initiated a policy that forbade any direct contracting with American or British companies under the OFF Program.⁶⁶ In addition, according to senior officials in the Hussein regime interviewed by the Subcommittee, Iraq demanded that the company that purchased the oil had to be located in the same country as the recipient of the allocation. For example, oil that had been allotted to a Russian official had to be purchased by a Russian company. That meant that Bayoil, an American company, could not buy oil that had been allotted to any Russian individuals or entities. Instead, Bayoil would have to arrange for a Russian entity to act as a nominal purchaser for the oil, which would contract with SOMO for the oil, and without ever taking possession of it, sell that cargo to Bayoil.

⁶³ See Letter from U.N. Oil Overseers to Sidanco, April 13, 1999 (granting approval of extension of M/4/44 to April 30, 1999).

⁶⁴ See SOMO chart entitled "Statement of Quantities Allocated in Phase Subsequent to Phase Five," Sidanco and the "quantity of Mr. Zhirinovsky." This chart lists Sidanco as the contracting company, but indicates that Sidanco was "omitted from the list of the Ministry of Energy, in order to enable it to market the quantity of Mr. Zhirinovsky." The precise meaning of this notation is unclear.

⁶⁵ The Subcommittee will refer to J.S.C. Nafta Moscow as "Nafta Moscow" or "Nafta."

⁶⁶ See, e.g., Letter from Dr. Hassan Fifahmi Juma to "Mr. Z," December 15, 1998 (presented in Footnote 71, below).

Accordingly, Bayoil reached out to numerous Russian companies to act as a purchasing agent. To that end, on December 2, 1998, Bayoil wrote to Anatoly Gromov, the Sidanco official that was “empowered” to buy on behalf of Zhirinovskiy and the LDPR.⁶⁷ In that letter, Bayoil solicited an offer to purchase Sidanco’s Phase V allocation:

I understand that you may have some Iraqi oil allocation [sic]. If this is correct we would like to receive an offer from you for quantities available to you under future oil allocation [sic] of the Iraqi/UN Oil for food [sic] deal during the 5th period.

We are ready to pay market premiums for the oil as well as to open the respective Letters of Credit from your name in favor of U.N./SOMO for our account, if this is needed.

Bayoil sent a similar letter on the same day to a different Sidanco representative, and reiterated its willingness to pay “market premiums for the oil.”⁶⁸ Bayoil sent yet another letter to Sidanco that day. This third letter informed Sidanco that Bayoil's President David B. Chalmers, Jr. and its Special Advisor Ludmil Dionissiev would be traveling to Moscow from December 9 – 14, 1998, and requested a meeting “to discuss matters of mutual interest.”⁶⁹

Continuing its aggressive approach, Bayoil wrote an identical letter concerning the Chalmers-Dionissiev trip to Vladislav Efremov of Nafta Moscow.⁷⁰ Bayoil again indicated that it wanted to meet “to discuss matters of mutual interest.” Bayoil's trip to Moscow and Nafta Moscow would ultimately play a central role in the Bayoil-Zhirinovskiy transactions.

2. Bayoil Orchestrates the Purchase of Zhirinovskiy’s Oil Allocation

Bayoil's trip to Moscow in early December 1998 set the stage for its purchase of Zhirinovskiy’s Phase V oil allocation. The essence of the Bayoil-Zhirinovskiy transaction, as described below, involves (i) the assignment of the allocation from Zhirinovskiy to Bayoil, and (ii) the arrangement of a Russian agent to purchase the oil on behalf of Bayoil. Bayoil accomplished both of those tasks in late 1998 – early 1999. The nature of this two-pronged transaction is captured in an illuminating series of letters that are presented below.

(a) Bayoil and Zhirinovskiy Must Find a Russian Purchasing Agent

At some point in December 1998 – presumably during Bayoil's trip to Russia – Bayoil reached agreement with Zhirinovskiy to buy his oil allocation. Soon thereafter, Zhirinovskiy appears to have written to Iraqi Deputy Prime Minister Tariq Aziz to propose that Bayoil would be lifting his allotment of oil. On December 15, 1998, the Iraqi Ambassador to Russia responded

⁶⁷ See Letter from Bayoil Special Adviser Ludmil Dionissiev to Anatolii Nikolaevich Gromov, December 2, 1998. The letter was directed to Anatoly Gromov, the Sidanco official, at an entity called “Gruppa Alliance.” The nature of the Gruppa Alliance is unclear.

⁶⁸ See Letter from Bayoil Special Adviser Ludmil Dionissiev to Valerii Ivanovich Polyakov, December 2, 1998.

⁶⁹ See Letter from Bayoil Special Adviser Ludmil Dionissiev to Valerii Ivanovich Polyakov, December 2, 1998.

⁷⁰ See Letter from Bayoil Special Adviser Ludmil Dionissiev to V.A. Efremov, December 3, 1998.

to Zhirinovskiy, informing him that the Iraqis refused to do business with American companies. This correspondence was captured in translated letter to “Mr. Z, Leader of the LDPR”:

To Mr. Z

Leader of the LDPR

Dear Friend:

In answer of your letter address[ed] to Mr. Tariq Azis [*sic*], Deputy Prime Minister of Iraq, I have the honour to convey to you the apology of the Iraqi side that Iraq cannot do any deals with American companies....⁷¹

The fact that this translation was found in Bayoil's letters strongly implies that Bayoil was the American company that Zhirinovskiy had proposed.

In light of the Iraqi rule prohibiting American involvement, Bayoil was forced to engage a purchasing agent that would interface with SOMO. The Russian company Nafta Moscow would quickly fill that role.

(b) Nafta Accepts Bayoil's Proposal

During that same month, December 1998, Bayoil reached an agreement with Nafta such that Nafta would act as Bayoil's agent in the purchase of oil from Iraq. Nafta later provided written confirmation that it accepted Bayoil's proposal to act as an agent, in exchange for a commission of 3 cents per barrel:

In addition to our negotiations we confirm our readiness to purchase 7 – 10 million barrels of Iraqi oil, with possible increase in quantity, within the scope of the fifth phase of the U.N. Oil for Food Program, under quota which will be set by your company. The contract to purchase oil will be entered into by “Nafta Moscow” and “SOMO” and it will be implemented exclusively by your company at the official SOMO purchase price, plus 0.03 American dollars per net barrel of shipped oil. The stated premium added to the official sales price represents the costs of servicing the contract by “Nafta Moscow.” The opening of letters of credit in the name of “Nafta Moscow,” but on the account of your company for the benefit of the U.N. will be implemented by “Bayoil” and will bear all expenses related to this.⁷²

⁷¹ See Letter from Dr. Hassan Fihahmi Juma to “Mr. Z,” December 15, 1998 (described as “Translation answer to Mr. Z, Leader of LDPR”).

⁷² See Letter from V.A. Bunin, General Director of Nafta Moscow, to Ludmil Dionissiev, Senior Advisor to Bayoil, December 18, 1998. It is unclear whether the activities of the Russian individuals and political parties detailed in this Report violate Russian law. See Memorandum from the Library of Congress, Law Library, Eastern Law Division, “Legality of Russian Business Under the Oil for Food Program,” LL File No. 2005-01892, May 6, 2005.

In response to Nafta's December 18th letter, Bayoil President David Chalmers wrote to Nafta to confirm that "your letter reflects our understanding."⁷³ Tellingly, Chalmers also stated: "we hope that we will be in a position very soon to indicate the quota to be contracted by Nafta and SOMO."

These letters confirm that (i) Bayoil was responsible for obtaining the "quota" of oil, (ii) Bayoil was "exclusively" responsible for implementing the oil purchase, and (iii) Bayoil was responsible for financing the transaction through funding the letter of credit. As a result, it is clear that Nafta was simply a nominal purchasing agent for Bayoil in the Zhirinovskiy transaction.

The parties ultimately consummated their agreements in two written contracts. One contract was an agreement by which Bayoil would purchase the oil that Nafta had bought under the OFF Program.⁷⁴ The second contract was an agency agreement by which Bayoil would pay Nafta three cents for each barrel of oil purchased.⁷⁵

(c) After Nafta is Engaged, Bayoil Details the Transaction to Zhirinovskiy

On December 17, 1998, Bayoil President David Chalmers wrote to Vladimir Zhirinovskiy to confirm the transaction.⁷⁶ Chalmers's letter to Zhirinovskiy, who he identified as "The Chief of the LDPR's Faction," provides crucial insight into the Bayoil-Zhirinovskiy arrangement. In particular, Chalmers confirms that Bayoil would purchase Zhirinovskiy's allocation and that Nafta Moscow would act on behalf of Bayoil:

Today I have returned from a long business trip and I would like to confirm that everything on our side is under control and there is no change in our position.... You know that we have succeeded to put Nafta Moscow as a contracting party for your allocation.

Chalmers then requests that Zhirinovskiy send a letter back to Bayoil confirming that Bayoil will purchase his Phase V allocation. In doing so, Chalmers actually provides the precise language for the proposed letter. Not only does the draft letter confirm Bayoil's orchestration of the entire transaction, it also reveals that Bayoil agreed to pay a "premium" to Zhirinovskiy for his allocation:

⁷³ See Letter from Bayoil President David Chalmers to V.A. Bunin, December 23, 1998.

⁷⁴ See "Contract" between Nafta Moskva and Bayoil Supply & Trading Limited, February 19, 1999.

⁷⁵ See "Agency Agreement" between Nafta Moskva and Bayoil Supply & Trading Limited, February 19, 1999.

⁷⁶ See Letter from Bayoil President David B. Chalmers, Jr. to Vladimir V. Zhirinovskiy, "The Chief of the LDPR's Faction," December 17, 1998.

It would be very helpful for the execution of the second part of our job to receive from you on Letterhead of LDPR, [sic] the following text.

Quote

**To: Bayoil
Attn: David B. Chalmers, Jr. []**

Dear Sirs:

We LDPR confirm that our Iraqi oil allocation of 7 million barrels is assigned to Bayoil. We will confirm to SOMO to contract this allocation with company designated by Bayoil. Upon receiving from you the agreed premium prior to January 8th, 1999 [sic].

Signed,

Mr. Vladimir V. Zhirinovskiy

Unquote

After proposing this language, Chalmers reiterates that Bayoil had agreed to pay Zhirinovskiy a premium, and indicated that he hoped to do so before the end of 1998:

We hope that we will be in a position to effect payment prior to year end but as there are holidays in the U.S., Europe and Russian [sic] there may be some delays therefore January 8th seems an appropriate date.

(d) Bayoil Describes Its “Agreement” to Nafta

With the two prongs of the transaction set – *i.e.*, Zhirinovskiy would assign his allotment of oil to Bayoil and Bayoil had arranged with Nafta to act as an agent to interface with the Iraqis – the next step in the process was the formal contracting between Nafta and SOMO. In order to execute the contract with SOMO, however, Nafta was obligated to travel to Baghdad. That trip was scheduled for early March 1999. Immediately before Nafta’s trip to Baghdad, Bayoil wrote a lengthy letter to Nafta, providing detailed advice on how Nafta should interact with the Iraqis.⁷⁷ This letter provides startling detail concerning Bayoil’s relationship with Zhirinovskiy.

The first part of the letter provides Bayoil’s analysis of why the price for U.S.-bound Iraqi oil is too high. Bayoil then urges Nafta to remind the Iraqis that Nafta is operating on behalf of Zhirinovskiy and that increasing prices to Nafta will deny any “benefit” to Zhirinovskiy. Lastly, Bayoil then reveals that it has a secret contract with Zhirinovskiy:

⁷⁷ See Letter from Ludmil Dionissiev to Yu. N. Poukhov, Deputy General Director of Nafta Moscow.

For the reasons outlined above, it is imperative that Nafta receive full flexibility with respect to lifting period and destination for the allocation being contracted for and on behalf of Mr. Vladimir Volfovich, the LDPR.⁷⁸ ... There might be some strong arguments in Baghdad and we suggest your answer should be – [sic] that you are a service company of this contract and you are providing a service to Mr. Zhirinovskiy, who is one of the greatest supporter [sic] of the Iraqi cause in the world. As SOMO recently increased the price of oil for March they have denied [Zhirinovskiy] of any benefit from March [sic] shipment. Off the record you may say that this contract further on is marketed by Bayoil. This is under the agreement between Mr. Zhirinovskiy [sic] and Bayoil that you are not aware of.

Bayoil also offered suggestions to Nafta and the Iraqi government on how to “maximiz[e] the economic result for the LDPR.”

After providing this in-depth advice for Nafta’s meetings with the Iraqis, Bayoil anticipated that Nafta would be called upon to act as a “service company” for other allocation recipients from countries like Singapore and Bangladesh. Bayoil writes:

[Nafta] might be asked [in its meeting with SOMO] to contract [for] some additional barrels on behalf of third country [sic], Singapore or Bangladesh. We have informed the contract holders [i.e., the recipients of the allocations of oil] that ‘Nafta Moscow’ may contract with SOMO the same way you did for LDPR.

The letter concludes by noting that Zhirinovskiy wrote a letter to the Iraqis requesting an increase in his allocation and that Nafta was hand-delivering that letter on his behalf. Bayoil emphasizes that it wants to purchase any additional barrels allocated to Zhirinovskiy.

(e) Nafta Confirms It Will Buy Zhirinovskiy’s Allocation

At some point in Phase V, Nafta wrote to SOMO to confirm that it would contract for Zhirinovskiy’s allocation.⁷⁹ Nafta’s letter, which appears to have been drafted by Bayoil, states in clear terms that (i) Zhirinovskiy received an allocation, and (ii) Nafta would “contract” for that allotment:

⁷⁸ Notably, Zhirinovskiy’s full name is Vladimir Volfovich Zhirinovskiy.

⁷⁹ See Letter from Nafta Moscow to Saddam Z. Hassan, Executive Director General of SOMO, undated.

We have been informed to contact you regarding the allocation of Mr. Vladimir Volfovich Zhirinovski [*sic*]. We understood that you have approved Nafta Moscow to contract 7,000,000 barrels of Iraqi crude oil for the fifth phase under the above mentioned allocation.⁸⁰

Like the other correspondence in this series, this letter shines further light on the behind-the-scenes mechanics of the Bayoil-Zhirinovsky transaction. Together with the earlier correspondence, this letter confirms of several crucial facts concerning the Zhirinovsky allocations and the Bayoil-Zhirinovsky relationship. In particular, these letters confirm that:

- Zhirinovsky and the LDPR received oil allocations from the Hussein regime in Phase V of the OFF Program;
- Bayoil knew that the allocations were granted to the Russian official and his political party;
- Bayoil knew that the oil allocations were granted to Zhirinovsky to “benefit” him, and that, by increasing the price of oil, the Iraqis would eliminate any premiums destined for Zhirinovsky;
- Bayoil had a secret “agreement” with Zhirinovsky to purchase his allocations and pay him a “premium”;
- Nafta was simply a “service company” for the contract on behalf of Zhirinovsky and Bayoil;
- Bayoil expected to buy allocations from recipients in other countries, and sought to use Nafta Moscow as a conduit in those transactions; and
- Zhirinovsky wrote to the Iraqis requesting an increase in his allocation, Nafta was delivering the letter on Zhirinovsky’s behalf, and Bayoil sought to purchase any supplemental allocation.

3. Bayoil Uses Nafta as an Intermediary to Buy Oil Allocated to Zhirinovsky

On March 2, 1999, two representatives of Nafta Moscow were in Baghdad to sign a contract to buy Iraqi crude oil on behalf of Zhirinovsky and Bayoil. Vladislav Efremov, Director of Nafta Moscow, signed Contract M/5/50 between Nafta and SOMO for 7 million barrels of oil.⁸¹ Notably, the contract amount of 7 million barrels matches the amount of Zhirinovsky’s

⁸⁰ The letter appears to be another letter drafted by Bayoil in the name of Nafta Moscow for three reasons. First, the letter is not on Nafta letterhead, which appears to have been Nafta’s normal practice. Second, Zhirinovsky’s name is spelled “Zhirinovski,” which is how Bayoil executive Ludmil Dionnisiev spelled the Russian’s name. *See, e.g.*, Letter from Bayoil Special Advisor Ludmil Dionnisiev to Nafta Moscow, February 24, 1999 (cited above).

⁸¹ *See* SOMO Crude Oil Sales Contract No. M/5/50 (cover and signature pages).

allotment, as reflected in the SOMO Allocation Chart, Bayoil's December 17, 1998 letter, Bayoil's January 12, 1999 letter, and Nafta's undated letter to SOMO.⁸²

Two days after Contract M/5/50 was signed, SOMO officials informed the Minister of Oil about Contract M/5/50, and indicated that the contract arose from the Phase V allocation to Zhirinovskiy and the LDPR:

Based on the approval of the Vice President of the Republic, Mr. Taha Yassin Ramadan, as per the allocations statement of Phase V ..., a contract has been signed on 3/3/1999 with Nafta Moscow which was chosen by the Liberal Democratic Party of Russia (Zhirinovskiy) for the supplemental quantity to their allocations for Phase V [].⁸³

The Oil Minister approved the contract shortly thereafter.

On March 22, 1999, Bayoil drafted a letter for Nafta to send to the Acting General Director of SOMO, the Iraqi oil marketing agency.⁸⁴ In that letter, Bayoil – under Nafta's name – reiterates that Zhirinovskiy had requested an additional 1-million barrel allocation and requests confirmation that the supplemental allotment will be granted:

Dear Mr. Pukhov [the Deputy General Director of Nafta Moscow]

Please send the following text to Mr. Awni – acting General Director of SOMO.

Quote:

With reference to the contract for the 7 million barrels of [Iraqi] crude oil, the holder of the allocation has already sent the written request to the relevant Iraqi authorities for the increase of 1 Million barrels.

Unquote.

Nafta apparently sent the letter to the Iraqis, but neither Bayoil nor Nafta received a response. Seven days later, on March 29, 1999, Bayoil prepared another letter for Nafta concerning the “7

⁸² Although the SOMO Allocation Chart created after the fall of the Hussein regime indicates that Zhirinovskiy was granted an allocation of 10 million barrels in Phase V, that figure includes the 3 million barrel supplemental allocation that was granted to Zhirinovskiy at the end of Phase IV. Therefore, the figures in the SOMO Allocation Chart comport with those of the documents mentioned above.

⁸³ See Letter from Saddam Zeben Hassan to Minister of Oil, March 3, 1999.

⁸⁴ See Letter from David B. Chalmers, Jr./Ludmil Dionissiev to Y. Pukhov, March 22, 1999.

Million Allocation.”⁸⁵ The March 29th letter reiterates the request to increase the allocation by 1 million barrels and laments that SOMO has neglected to respond:

TO: JSC Nafta Moscow

Please forward following to S.O.M.O.

QUOTE:

TO: S.O.M.O.

Date: March 29, 1999

Re: 7 Million Allocation [sic]

As per our telex message March 22, 1999 regarding holder of allocations [sic] request to authorities to increase by 1 million barrels, we have yet to receive a formal response.

UNQUOTE: [sic]

Together, the evidence shows that Bayoil was a key moving party behind the Zhirinovskiy transaction in Phase V. Bayoil lined up Nafta as the nominal contractor, literally wrote letters for Nafta to be sent to SOMO, and coached Nafta on dealing with Iraqi officials. In addition, the evidence shows that Bayoil – not Nafta – had direct communications with Zhirinovskiy concerning his request to increase his allocation by 1 million barrels, and Bayoil was using Nafta as an intermediary to convince Iraq to increase Zhirinovskiy’s allocation in Phase V.

4. Shipments Under Contract M/5/50

Contract M/5/50 resulted in 5 different shipments of Iraqi oil from late March through early May 1999, as reflected in the chart below.⁸⁶ The volume of oil shipped in those 5 cargoes totaled roughly 7 million barrels. Bayoil purchased each of those shipments, and each cargo was destined for the United States. For each cargo, Bayoil maintained detailed ledger statements reflecting all income and expenses. Among other information, the ledger statements for the M/5/50 shipments show that Bayoil made a payment of exactly 17 cents per barrel to an Italian company named United Management.⁸⁷ According to Bayoil’s ledger statements, these payments were for “Commissions.” A review of Bayoil’s files for these shipments, which include hundreds of pages, did not reveal any service provided by United Management in connection with these shipments.

⁸⁵ See Letter from Bayoil to Nafta Moscow, March 29, 1999.

⁸⁶ See SOMO Commercial Invoice Nos. B/88/99, B/101/99, B/99/99, B/111/99, and B/127/99.

⁸⁷ See Bayoil Supply & Trading Ltd. General Ledgers for M/5/50 (excerpts). Due to the length of these ledgers, only the pages from Bayoil’s ledger statements with pertinent information will be exhibits to this Report.

Shipment	Date	Oil Lifted (barrels)	Payment to United Management	Rate of UM Commission
1	3/29/99	1,949,679	\$331,445.43	17 cents/barrel
2	4/9/99	1,482,633	\$252,047.61	17 cents/barrel
3	4/11/99	1,996,834	\$339,461.78	17 cents/barrel
4	4/18/99	506,115	\$86,039.55	17 cents/barrel
5	5/6/99	989,975	\$168,295.75	17 cents/barrel
Total Commissions Paid to “United Management” by Bayoil under M/5/50 = \$1,177,290.12				

F. The Fifth Allocation (Phase VI)

As in Phase V, Zhirinovskiy received a substantial allocation in Phase VI of the OFF Program. Two different SOMO charts – along with a host of documents analyzed below – confirm that Zhirinovskiy received a 10-million barrel allocation in Phase VI.⁸⁸ In fact, multiple letters presented below indicate that Saddam Hussein personally approved the Phase VI allocation to Zhirinovskiy. The monetization of that Phase VI allocation followed the same pattern as in Phase V – Zhirinovskiy sold the allocation to Bayoil, and Bayoil engaged Nafta Moscow as an intermediary to contract with SOMO.

1. Zhirinovskiy Authorizes Nafta to Purchase His Oil Allocation

On April 27, 1999, Zhirinovskiy wrote to SOMO, verifying that Nafta was the company that would contract for his allocation.⁸⁹ The letter, written on LDPR letterhead that featured a picture of Zhirinovskiy himself, stated:

We confirm that we have the cooperation with the “NAFTA MOSCOW” company. The balance allocation for the sixth phase of 1999, in an amount of one cargo..., but not more than 2,5 million barrels of [a specific grade of Iraqi crude oil], should be assigned to “NAFTA MOSCOW” for contracting and lifting.

In light of the fact that these are Zhirinovskiy’s own words, this letter is truly significant. Not only does Zhirinovskiy openly discuss an allocation granted to him in connection with Phase VI of the OFF Program, he also indicates which entity is authorized to contract for that allocation.

⁸⁸ See SOMO Chart entitled “Statement of Allocations for Phase Subsequent to Phase Seven,” June 14, 2000; SOMO Chart entitled “Quantities of Crude Oil Allocated to Russian Companies,” November 1, 2000.

⁸⁹ See Letter from Vladimir Zhirinovskiy to SOMO, April 27, 1999.

Why Zhirinovskiy limits the Nafta contract to only 2.5 million of his 10 million barrel allocation is unclear.

This letter may have been delivered by hand, as Zhirinovskiy traveled to Baghdad the very next day.⁹⁰ On this trip, Zhirinovskiy led a delegation of Russian officials to celebrate Saddam Hussein's 62nd birthday and to attend a conference sponsored by the Hussein regime condemning U.S.-U.K. military activity against Iraq. During the trip, Zhirinovskiy met with Tariq Aziz and the Vice President of Iraq Taha Yassin Ramadan, two members of the committee that doled out the oil allocations.

2. On Behalf of Bayoil, Nafta Contracts for Zhirinovskiy's Oil

With Zhirinovskiy's authorization in hand, Nafta prepared to travel to Baghdad to sign the contract for Zhirinovskiy's allocation. On May 24, 1999, just three days before Nafta's representatives would leave for Baghdad, Nafta requested certain critical information from Bayoil concerning the contract.⁹¹ The letter by Nafta indicates that Bayoil was orchestrating the entire transaction and that Nafta was simply its agent:

Since our representatives intend to leave Moscow for Baghdad on 27 May 1999 please urgently advise ... whether necessary arrangements are already made in order they could sign Contract with "SOMO", also kindly indicate allocated volumes and grades of crude oil.

This letter reveals that, even though Nafta personnel were departing imminently to sign a multi-million barrel oil contract in Baghdad, they did not know (i) whether the "necessary arrangements" for the contract had been made, (ii) the volume of oil allocated for this contract, or (iii) the grade of oil to be purchased.⁹² That Nafta is demanding this information from Bayoil is telling – in particular, it reveals that Nafta understands that Bayoil is communicating directly with the allocation recipient (i.e., Zhirinovskiy) concerning the volume and grade of the allocation.

Whether Bayoil responded to Nafta's request is unclear. Nevertheless, Bayoil must have made the "necessary arrangements" for the contract because, just a few days later, Nafta did indeed execute a Phase VI contract with SOMO.⁹³ This contract, numbered M/6/25, covered only 2.5 million barrels of oil, as per Zhirinovskiy's instruction in his April 27th letter.

⁹⁰ See Associated Press Worldstream, "Senior Iraqi Leaders Meet Russian Politician Zhirinovskiy," April 28, 1999.

⁹¹ See Letter from Nafta Moscow to Bayoil, May 24, 1999.

⁹² The term "grade" refers to the type of oil purchased. Under the OFF Program, buyers could contract for oil from Kirkuk or Basrah. Therefore, in this letter, Nafta is requesting that Bayoil identify whether the oil contract will be for crude oil from Kirkuk or Basrah.

⁹³ See SOMO Crude Oil Sales Contract No. M/6/25 (cover and signature pages).

3. SOMO Confirms Nafta's Contract is on Behalf of Zhirinovsky and His Political Party

Several days after M/6/25 was signed, SOMO notified the Minister of Oil of the agreement, and requested his approval:

Based on the allocations statement coupled with the approval of the President Leader (may God protect him) as per the letter of the Presidency... regarding the allocation of 10 million barrels to the Liberal Democratic Party company, please find below details on the contract signed with Nafta Moscow Company on 5/31/1999 on behalf of the aforesaid party.⁹⁴

In describing the contract, SOMO mistakenly indicated that Contract M/6/25 covered 4 million barrels of oil, rather than 2.5 million. In light of SOMO's error, the Minister of Oil refused to approve Contract M/6/25, instructing SOMO to "correct the numbers." Several days later, on June 8, 1999, SOMO wrote back to the Minister of Oil, indicating that the volume of oil for Contract M/6/25 had been corrected from 4 million barrels to 2.5 million.⁹⁵ The Oil Minister then approved the contract for 2.5 million barrels.

Both SOMO letters state that Zhirinovsky and his political party had been granted allocations of 10 million barrels of oil. In addition, both SOMO letters affirm that Saddam Hussein had personally approved the allocations.

On June 8, 1999, Nafta lifted 2,393,440 barrels of oil pursuant to Contract M/6/25.⁹⁶

4. Nafta's Contract is Increased to 10 Million Barrels

Although Nafta's contract in Phase VI was limited to 2.5 million barrels, Nafta was eventually authorized to lift the remaining 7.5 million barrels that had been allocated to Zhirinovsky in Phase VI. On June 30, 1999, Bayoil sent a letter to Zhirinovsky's son, Igor Ledebev, who is also a Member of the Russian Duma.⁹⁷ In that letter, Bayoil drafted a letter for Zhirinovsky to send to SOMO, in which Zhirinovsky "authorize[d]" Nafta to lift the remaining 7.5 million barrels. According to the letter, SOMO had agreed to supply 4 million of those remaining 7.5 million barrels in July 1999, leaving 3.5 million barrels for shipment at a later date. The Bayoil document states:

⁹⁴ See Letter from SOMO to the Minister of Oil, June 3, 1999.

⁹⁵ See Letter from SOMO to the Minister of Oil, June 8, 1999 (corrected request for approval of M/6/25).

⁹⁶ See SOMO Commercial Invoice No. B/155/99.

⁹⁷ See Letter from "Ludmil" to Igor Ledebev, June 30, 1999. The author appears to be Bayoil Special Advisor Ludmil Dionissiev.

PLEASE FIND BELOW FOLLOWING DRAFT TEXT OF THE LETTER WE HAVE DISCUSSED TODAY.

QUOTE

WE CONFIRM THAT WE HAVE COOPERATION WITH “NAFTA MOSKVA”, MOSCOW AND HEREBY AUTHORISE NAFTA TO CONTRACT THE WHOLE REMAINING PART OF THE ALLOCATION WHICH, AT THIS MOMENT, TOTALS 7,500,000 BARRELS OF BASRAH LIGHT CRUDE OIL.

IN ADDITION TO THIS, WE CONFIRM THAT WE HAVE AUTHORISED NAFTA TO LIFT THE ALREADY AGREED 4,000,000 BARRELS OF BASRAH LIGHT CRUDE OIL WITHIN THE PROGRAM DURING JULY 1999.

AT THIS TIME, WE KEEP OUR RIGHTS TO ADVISE YOU AT A LATER STAGE WHEN THE REMAINING 3,500,000 BARRELS OF BASRAH LIGHT CRUDE OIL WILL BE LIFTED BY NAFTA.

UNQUOTE

Three days later, on July 2, 1999, Nafta and SOMO executed an Addendum to Contract M/6/25, by which the contract volume was increased by 4 million barrels.⁹⁸ As usual, SOMO informed the Oil Minister of the agreement, and sought his approval.⁹⁹

In addition to our memorandum ... of 06/08/1999, and based on the statement of allocations for phase 6, which was approved as per the letter of the Presidency-Secretary... regarding allocating 10 million barrels to the company of the Liberal Democratic Party of Russia (Zhirinovskiy), please find below details on the addendum of contract signed with Nafta Moscow Company on July 2, 1999, on behalf of the above-mentioned party as another part of the quantity.

In describing the addendum to the contract, SOMO makes clear that the revised contract with Nafta Moscow was “on behalf of Mr. Zhirinovskiy.” SOMO also indicated that, of the 10 million barrels allocated to Zhirinovskiy in Phase VI, “3.5 million barrels remain for future contract.”

An internal SOMO chart adds further confirmation that Zhirinovskiy had been allocated an additional 3.5 million barrels for Phase VI.¹⁰⁰ That chart, dated July 12, 1999, indicates the

⁹⁸ See Addendum No.1 Contract M/6/25, July 2, 1999.

⁹⁹ See Letter of SOMO to Minister of Oil dated July 5, 1999.

“contractual quantities through 7/12/99,” which fell within Phase VI. Under the heading “Quantities Allocated and Expected to Be Allocated,” the name “Zhirinovsky (Russia)” appears. Next to his name, the chart lists 3.5 million barrels.

That remaining 3.5 million barrels became the subject of extended correspondence between Bayoil and Nafta. For instance, on July 15, 1999, Nafta notified Bayoil of its attempts to obtain the remaining 3.5 million barrels:

[P]lease be advised that yesterday we applied to ‘SOMO’ with request to sign by fax Addendum No. 2 to Contract M/6/25 of 30.5.99 for the increase of quantity up to [10 million barrels]... By their telex [] ‘SOMO’ gave only partial reply to our inquiry.¹⁰¹

Later that day, Bayoil responded to Nafta’s letter, stating:

We understand SOMO answer as a silent confirmation of what the allocation holder told us, i.e. “the contract is increased to 10,000,000 barrels....”¹⁰²

From this interchange, it is clear that (i) SOMO had promised the “allocation holder” – Zhirinovsky – the additional 3.5 million barrel allocation, and (ii) Zhirinovsky had communicated that promise directly to Bayoil. Therefore, Bayoil’s letter provides further confirmation that Bayoil had continuing, direct communication with the “allocation holder” – Zhirinovsky – throughout the transaction.

Bayoil's understanding that the contract would be increased to 10 million barrels ultimately proved correct – just a few weeks later, SOMO executed another addendum to Contract M/6/25, increasing the volume of oil from 6.5 million barrels to 10 million.¹⁰³ SOMO once again requested approval for the change from the Oil Minister immediately thereafter.¹⁰⁴ SOMO’s letter to the Oil Minister reiterates that these barrels had been “allocat[ed] ... to Mr. Zhirinovsky” and that this contract had been executed “on behalf of Mr. Zhirinovsky.”

5. Unknown Payments from Bayoil Related to Contract M/6/25

Contract M/6/25 resulted in 6 different cargoes of oil from June 8 through October 20, 1999, as reflected in the chart below.¹⁰⁵ Those 6 shipments carried a total of 7,843,376 barrels of oil, all of which was purchased by Bayoil.

¹⁰⁰ See Memorandum from Saddam Zeben Hassan to Oil Minister, July 12, 1999 (forwarding handwritten chart reflecting oil allocations).

¹⁰¹ See Letter from Nafta Moscow to Bayoil, July 15, 1999.

¹⁰² See Letter from David B. Chalmers, Jr. to Nafta Moscow, July 15, 1999.

¹⁰³ See Addendum No. 2 Contract M/6/25, July 31, 1999.

¹⁰⁴ See Letter from Saddam Hassan to Minister of Oil, August 1, 1999.

¹⁰⁵ See SOMO Commercial Invoice Nos. B/155/99, C/198/99, C/223/99, B/260/99, C/257/99, and B/193/99.

As with each of its cargoes, Bayoil maintained detailed ledger statements reflecting all income and expenses. The ledger statements indicate that, in connection with this contract, Bayoil paid \$1,333,373.92 to an entity called “Plasco Shipping.”¹⁰⁶ Those payments to Plasco Shipping amount to exactly 17 cents per barrel – the precise amount that Bayoil paid to United Management in connection with the Phase V transaction. Like the payments to United Management, the Bayoil ledger statements indicate that these Plasco payments were “Agent Commissions.” Despite the fact that Bayoil paid Plasco more than \$1.3 million – in payments ranging from \$42,500 to \$406,884.80 – Bayoil’s files do not reflect any interaction with an entity called Plasco Shipping. In fact, Bayoil’s files are completely devoid of any reference to Plasco – there is no correspondence of any kind with Plasco Shipping, no contract with any entity named Plasco, and no invoice from an entity with the name Plasco.

The information concerning each payment is reflected in the chart below:

Shipment	Date	Oil Lifted (barrels)	Payment to Plasco Shipping	Rate of Plasco Commission
1	6/8/99	2,393,440	\$406,884.80	17 cents/barrel
2	7/23/99	1,889,602	\$321,232.34	17 cents/barrel
3	8/23/99	596,139	\$101,343.63	17 cents/barrel
4	9/17/99	894,936	\$152,139.12	17 cents/barrel
5	9/24/99	250,000	\$42,500	17 cents/barrel
6	10/20/99	1,819,259	\$309,274.03	17 cents/barrel
Total Commissions Paid to “Plasco Shipping” by Bayoil under M/6/25 = \$1,333,373.92				

6. Zhirinovsky Requests Additional Oil in Phase VI

Toward the end of Phase VI, Zhirinovsky apparently requested a supplemental allocation of oil. In a letter dated October 5, 1999, the Executive Director of SOMO informed the Minister of Oil that every allocation grantee had requested additional allotments and requested his advice concerning the requests: “All companies we do business with... have shown the desire to obtain additional quantities during this phase.”¹⁰⁷ Attached to this letter were two charts reflecting data about previous allocations. In the attached Table 1, SOMO listed “the companies in phase six and the additional quantities they requested.” Under the heading “Special Requests” in Table 1, the name “Zhirinovsky” appears. Next to that entry, the chart indicates that the “contractual quantity” for Zhirinovsky’s allocation was 10 million barrels, matching the other SOMO

¹⁰⁶ See Bayoil General Ledgers for M/6/25 (excerpts).

¹⁰⁷ See Letter of Saddam Zeben Hasan to Oil Minister, October 5, 1999.

documentation concerning Zhirinovsky's Phase VI allocation. Under "Additional Quantities Requested," the table indicates that Zhirinovsky had requested a supplemental allocation of 500,000 barrels. It is unclear whether that request was granted or if the allotted oil was ever lifted.

G. The Sixth Allocation (Phase VII)

Numerous SOMO records indicate that Zhirinovsky received another significant allocation – 6.5 million barrels of oil – in the seventh phase of the Oil for Food Program. The SOMO Allocation Chart, described above, confirms the 6.5 million barrel allocation to Zhirinovsky in Phase VII. Like the allocations for Phases V and VI, the oil was ultimately purchased by Bayoil. The purchasing agent for this transaction, however, was not Nafta Moscow, but rather a different Russian company, called Tyumen Oil Company.¹⁰⁸

1. Zhirinovsky Visit to Iraq

In late December 1999, Zhirinovsky traveled to Iraq – apparently his tenth trip in four years. On December 29, 1999, Zhirinovsky met with Saddam Hussein, and two members of the oil allocation committee, Vice President Taha Yassin Ramadan and Deputy Prime Minister Tariq Aziz.¹⁰⁹ Zhirinovsky once again reiterated his support for the Hussein regime and opposition to the U.N.'s sanctions against Iraq. Zhirinovsky stated that Russia felt "solidarity with Iraq on the lifting of the unfair embargo."

2. Tyumen Signs Contract "on Behalf of the Liberal Democratic Party of Russia (Mr. Zhirinovsky)"

On January 19, 2000, shortly after Zhirinovsky's trip to Baghdad, Tyumen executed a contract for the purchase of 6.5 million barrels of oil from Iraq.¹¹⁰ SOMO submitted that contract, numbered M/7/90, to the Oil Minister for approval on January 22, 2000.¹¹¹ In notifying the Oil Minister of the contract, SOMO confirmed that the contract was executed "on behalf of Zhirinovsky" or the LDPR:

Based on the statement of allocations (private) for Phase 7, please find below the details of contract signed with Tyumen Russian Company on 1/19/2000 on behalf of the Liberal Democratic Party of Russia (Mr. Zhirinovsky):

1 – Contract No.: M/07/90 dated 1/19/2000

2 – Name of Company Buyer: Tyumen Russian Co. – on behalf of Mr. Zhirinovsky

The Minister of Oil approved the contract the next day.

¹⁰⁸ Throughout this Report, Tyumen Oil Company will be called "Tyumen" or its widely-used abbreviation "TNK."

¹⁰⁹ See Agence France Presse, "Saddam Receives Russian Ultra-Nationalist Zhirinovsky," December 29, 1999.

¹¹⁰ See SOMO Crude Oil Sales Contract No. M/7/90 (cover and signature pages).

¹¹¹ See Letter from SOMO to Oil Minister, January 22, 2000.

3. Bayoil Pays Roughly \$1 Million to a “Russian” in Connection with Contract M/7/90

A couple of weeks later, on February 5, 2000, the oil tanker *Golar Dundee* lifted roughly 2 million barrels of oil on behalf of Tyumen pursuant to Contract M/7/90.¹¹² A document entitled “Bayoil Cargoes Loaded Under UN Oil-for-Food Program (1997-2003)” confirms that Bayoil purchased that cargo from Tyumen.¹¹³ Bayoil’s internal accounting statement for that shipment indicates that Bayoil made a payment of \$620,000 to an entity called “Bayvan Consulting” in connection with that transaction. The entry on the ledger statement states that the \$620,000 payment was for “Agent Commissions.”¹¹⁴

A different Bayoil document, however, indicates that the \$620,000 payment to Bayvan Consulting actually went to a “Russian.”¹¹⁵ That document is an email from a Bayoil employee to Bayoil’s President David Chalmers listing each of Bayoil’s expenses arising from this particular *Golar Dundee* shipment. The list includes, *inter alia*, the cost of the crude oil, the costs to obtain the applicable letter of credit, the U.N.’s finance charges, and the costs of chartering the oil tanker. Importantly, at the end of the list appears an entry entitled “Russian Commission” for \$620,000 – precisely the same amount as the “Agent Commission” paid to “Bayvan Consulting.” The list further states that the \$620,000 payment is comprised of a commission of 31 cents per barrel for a 2 million-barrel cargo, the amount carried on the *Golar Dundee*.

Notably, the document makes clear that the \$620,000 payment to a “Russian” is not the commission owed to Tyumen, the Russian intermediary, since the Bayoil breakdown of costs includes a separate entry of 3 cents per barrel for the Tyumen commission. Specifically, the list denotes a payment of \$61,315.56 for “TNK Comm,” a reference to Tyumen’s initials. The amount of \$61,315.56 equates to precisely 3-cent-per-barrel for the *Golar Dundee* shipment of 2,043,852 barrels. As a result, the reference to a “Russian” in connection with the \$620,000 payment does not refer to Tyumen; rather, the \$620,000 payment to “Bayvan Consulting” must be for a different “Russian.” That Russian – in light of the SOMO documents presented above – is likely Zhirinovskiy, the allocation recipient.

Importantly, Bayoil documents reveal that at least two other shipments arising from Contract M/7/90 included identical payments of 31-cents-per-barrel to Bayvan Consulting for “Agency Commissions.”¹¹⁶ For instance, the next M/7/90 lifting occurred on February 20th, involving the oil tanker called *Stena Congress*. That vessel loaded 750,000 barrels on behalf of Tyumen. Bayoil’s ledger statement for that shipment indicates that the company purchased the

¹¹² See SOMO Commercial Invoice No. B/30/2000.

¹¹³ See chart entitled “Bayoil Cargoes Loaded Under UN Oil-for-Food Program (1997-2003)” (excerpt).

¹¹⁴ See Bayoil General Ledger for *Golar Dundee* (excerpt).

¹¹⁵ See Email from “Jean” to “David,” March 14, 2000.

¹¹⁶ Although Bayoil purchased the fourth (and final) shipment of Contract M/7/90, it could not locate the complete ledger statement for that shipment. As a result, it is unclear whether Bayoil made a similar 31-cent payment to Bayvan Consulting in connection with the fourth cargo of Contract M/7/90. That cargo amounted to 1,872,090 barrels, and was lifted onto a vessel called the *Stena Conductor* on March 20, 2000. If Bayoil made the 31-cent payment for the *Stena Conductor* cargo, the Bayvan payment for that shipment would have equaled \$580,374.90.

Stena Congress cargo, and made a payment of \$221,650 to Bayvan Consulting in connection with that transaction.¹¹⁷ That payment of \$221,650 is precisely 31 cents for each of the 750,000 barrels lifted by the *Stena Congress*.

The same pattern continues in the third shipment for Contract M/7/90, which involved 415,000 barrels lifted aboard the oil tanker *Boree*. Once again, Bayoil bought that cargo and made a payment for “Agency Commissions” to Bayvan Consulting of precisely 31 cents for each of the 415,000 barrels loaded onto the *Boree*.¹¹⁸ The result was a payment to Bayvan of \$128,650.

Of the three known shipments, Bayoil paid the “Russian” \$970,300, all of which went through Bayvan Consulting. Assuming that the pattern continued for the fourth shipment of Contract M/7/90 – meaning that Bayoil made the “Agent Commission” payment to the “Russian” via Bayvan Consulting – the total amount paid would equal \$1,550,647.90.

Shipment	Date	Oil Lifted (barrels)	Payment to Bayvan Consulting
1	2/5/00	2,043,852	\$620,000 (identified as “Russian Commission”)
2	2/20/00	750,000	\$221,650
3	3/9/00	415,000	\$128,650
4	3/20/00	1,872,090	Unknown – File Incomplete
<p>Total Known Commissions Paid to “Bayvan Consulting” by Bayoil under M/7/90 = \$970,300</p> <p>Total Probable Payments to “Bayvan Consulting” by Bayoil under M/7/90 = \$1,550,647.90</p>			

Although Bayoil's files contain nearly one thousand pages concerning the four cargos related to M/7/90, not a single sheet of paper indicates that Bayvan Consulting provided any services whatsoever in connection with that contract. Simply put, other than individual entries on its ledger statements, the Bayoil files contain no reference to Bayvan Consulting – no contract, no correspondence, and no invoices. Nevertheless, Bayoil saw fit to pay that a “Russian Commission” of at least \$970,300 and most likely more than \$1.5 million.

4. Additional Evidence of Zhirinovsky’s Phase VII Allocation

On June 14, 2000, immediately following the end of Phase VII, SOMO created a handwritten chart that summarized its allocations for Phases VI and VII, and indicated proposed future allocations. That chart, entitled “Statement of Allocations for the Phase Subsequent to

¹¹⁷ See SOMO Commercial Invoice No. B/46/2000 and Bayoil General Ledger for *Stena Congress* (excerpt).

¹¹⁸ See SOMO Commercial Invoice No. B/64/2000 and Bayoil General Ledger for *Boree* (excerpt).

Phase 7,” indicates that a Russian named “Mr. Zhirinovsky” was granted allocations of 10 million barrels in Phase VI and 6.5 million barrels in Phase VII. Both of those amounts comport with the evidence discussed above concerning Zhirinovsky’s allocations for Phases VI and VII. In addition, under the heading “Allocations of the Phase Subsequent to Phase 7,” the chart notes that Zhirinovsky was granted an allocation of 9 million barrels.

Later in June, SOMO drafted another hand-written chart for the Minister of Oil that summarized the status of oil allocations for Phase VII. Once again, “Mr. Zhirinovsky” appears as recipient of an allocation of 6.5 million barrels for Phase VII. The chart also notes that Zhirinovsky’s allocation for Phase VII “has been lifted by Tyumen.” Like the previous chart, this table indicates that Zhirinovsky received an allocation of 9 million barrels for Phase VIII. A hand-written note on the chart indicates that some of the recipients of the Phase VIII allocations had not yet indicated which company would purchase their allotted oil, and therefore SOMO had not yet executed contracts for those allocations: “We are still waiting for the private parties who were granted allocations in Phase 8 to specify the companies, so that we can carry out the contract with them.” Zhirinovsky’s Phase VIII allocation is discussed in detail below.

H. The Seventh Allocation (Phase VIII)

The Phase VIII allocation to Zhirinovsky followed the pattern established with the allocations in Phases V, VI, and VII. Namely, Zhirinovsky was granted the allocation, Bayoil agreed to purchase the oil allotted to Zhirinovsky, Bayoil engaged a Russian entity to be the purchasing agent and interface with Iraq, and Bayoil made significant payments to a mysterious entity for each shipment.

This transaction, however, included one additional element – a massive under-the-table payment to Saddam Hussein. Such illegal payments, commonly called “surcharges,” began on September 1, 2000. According to several Hussein regime officials, Saddam learned of the profits going to allocation recipients and oil traders that were dealing in Iraqi oil, and sought to capture some of those earnings for himself.¹¹⁹ One regime official described Saddam’s intent:

Saddam Hussein began to think the amount of the bribery [from the so-called “Saddam Bribery System” of oil allocations] became too great. At that point Saddam Hussein implement a system to recover some of the bribe money. [The official] explained that this eventually became an objective and the supporters [who received oil allocations] had to give some of their profits to Saddam Hussein.¹²⁰

Saddam’s plan was straightforward: SOMO would lower the price for oil by a small margin and then demand that the oil purchaser pay a surcharge back to the Hussein regime through a designated secret bank account. Initially, the surcharges were 10 cents per barrel, meaning that a purchaser of 1 million barrels would be obligated to pay \$100,000 into a secret regime-controlled account. The amount of the surcharge fluctuated over the next two years,

¹¹⁹ E.g., Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005.

¹²⁰ Memorandum of Interview of former regime official by U.S. Treasury Iraqi Financial Asset Team on March 24, 2004 (Interview #50).

reaching 30 cents per barrel for more than a year. These under-the-table surcharge payments were in direct violation of U.N. sanctions and the Oil for Food Program because they were not deposited into the U.N.-controlled escrow account held at BNP Paribas.

One important aspect of this surcharge scheme was that the Iraqis placed responsibility for the surcharges squarely on the shoulders of the allocation grantee.¹²¹ Therefore, in order to receive an oil allocation after September 1, 2000, the allocation recipient was required to promise to pay the illegal surcharge. There were no exceptions.¹²² Accordingly, any person or entity that received an allocation after September 1, 2000 knew of and agreed to pay the illegal, under-the-table payment to the Hussein regime.

In the Zhirinovskiy-Bayoil transaction in Phase VIII, illegal surcharges of more \$800,000 were paid to the Hussein regime. Those payments, along with the initial allocation to Zhirinovskiy, are described in detail below.

1. SOMO Grants Zhirinovskiy an Oil Allocation for Phase VIII

As discussed above, SOMO's internal documents reveal that Zhirinovskiy was allotted 9 million barrels of oil in Phase VIII of the Program. A few weeks after those charts were prepared, Tyumen entered into Contract M/8/40 for the purchase of the oil allocated to Zhirinovskiy in this phase.¹²³ That contract, however, covered only 6 million barrels, amounting to two-thirds of Zhirinovskiy's Phase VIII allocation. It is unclear why the contracted volume of oil was lower than the allotted amount.

Per its typical protocol, SOMO immediately requested approval of the Minister of Oil for Contract M/8/40.¹²⁴ That letter clearly establishes that Tyumen's Phase VIII contract was "on behalf of Mr. Zhirinovskiy":

Based on the statement of allocations for Phase VIII, please find below the details of contract signed with Tyumen Russian company on behalf of Mr. Zhirinovskiy (as part of the 9 million barrels allocated to him)..."

The Oil Minister approved the contract shortly thereafter, on August 15, 2000.

At some point after the oil contracts had been signed, SOMO began scheduling the oil liftings arising from its Phase VIII contracts. One document provides further confirmation that Zhirinovskiy received an oil allocation in that phase, and that Tyumen had contracted for that oil. That document, a hand-written chart entitled "Table of Proposed Quantities for September 2000," indicates the proposed oil lifting schedule for one month in Phase VIII.¹²⁵ The sixth entry on the table indicates that SOMO proposed scheduling Tyumen to lift 5.1 million barrels during

¹²¹ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005.

¹²² *Id.*

¹²³ See SOMO Crude Oil Sales Contract No. M/8/40 (cover and signature pages).

¹²⁴ See Letter from Saddam Hassan to Minister of Oil, August 13, 2000.

¹²⁵ See SOMO chart entitled "Table of Proposed Quantities for September 2000."

September 2000. The name of the contracting company was written as follows: “Tyumen (Mr. Zhirinovsky).”

Another SOMO document written in Phase VIII confirms that Zhirinovsky was granted a 9-million barrel allocation in that phase.¹²⁶ That document is a chart entitled “Quantities of Crude Oil Allocated to Russian Companies.” As its title suggests, the chart lists the person or entity that received an allocation in Phase VIII and the amount of the allocation. Entry 21 on that list is “Mr. Zhirinovsky,” who was scheduled to receive 9 million barrels of crude oil in Phase VIII. The chart also indicates that Zhirinovsky received a 10-million barrel allocation in Phase VI and a 6.5-million barrel allotment in Phase VII.

2. Bayoil Contracts with Tyumen to Buy the Allotted Oil

As SOMO was in the process of granting the oil allocation to Zhirinovsky, Bayoil orchestrated the purchase of the allotted oil. Like the Phase VII transaction, Bayoil engaged Tyumen to act as the Russian purchasing agent that would interface with the Iraqis. To that end, Bayoil signed a contract with a Tyumen affiliate named Crown Trade and Finance Ltd. to purchase “about 10 million barrels of Iraqi crude oil to be delivered in the frame of the 8th period of the United Nations programme ‘Oil for food’ subject to actual contractual quantities under the Contracts between ‘OAO Tyumen Oil Company (TNK) and ‘SOMO.’[sic]”¹²⁷ The terms of the contract obligated Bayoil to pay Crown three cents for each barrel lifted pursuant to Contract M/8/40, the Tyumen-SOMO contract for Phase VIII.

3. Oil Liftings for Contract M/8/40 and Dubious Payments Totaling \$2.45 Million

Tyumen, on behalf of Bayoil, began lifting oil pursuant to M/8/40 in September 2000.¹²⁸ Bayoil’s ledger statements for the Contract M/8/40 transactions show that Bayoil made payments of 3 cents per barrel to Tyumen, and other payments of exactly 27.7246 cents per barrel for each shipment.¹²⁹ These 27-cent-per-barrel payments totaled exactly \$2.45 million. The expense was identified as an “Agent Commission,” but the ledgers do not reveal the identity of the Agent.

¹²⁶ See SOMO chart entitled “Quantities of Crude Oil Allocated to Russian Companies,” 11/1/00 (cited above).

¹²⁷ See “Contract” between Crown Trade & Finance Ltd. and Bayoil Supply & Trading Company, June 30, 2000.

¹²⁸ See SOMO Commercial Invoice Nos. B/261/2000, B/270/2000, B/317/2000, B/33_/2000 (illegible), and B/1/2001.

¹²⁹ See Bayoil General Ledgers for M/8/40 (excerpts).

Shipment	Date	Oil Lifted (barrels)	Rate of “Agent Commission”	Payment to Unidentified Recipient for “Agent Commission”
1	9/8/00	2,073,906	27.7246 cents/barrel	\$574,984
2	9/16/00	2,010,489	27.7246 cents/barrel	\$557,402
3	10/23/00	1,050,000	27.7246 cents/barrel	\$291,109
4	11/11/00	1,882,481	27.7246 cents/barrel	\$521,912
5	1/6/01	1,820,015	27.7246 cents/barrel	\$504,593
Total Payments to Unidentified Recipient for “Agent Commissions” by Bayoil in Connection with Contract M/8/40 = \$2,450,000				

It is particularly conspicuous that the recipient of the \$2.45 million is not named in the Bayoil ledger statements. These ledger statements reflect Bayoil’s meticulous accounting for each cargo of oil. These statements contain an enormous amount of accounting information, including the category of each transaction, the date of each expense or revenue, the amount of each such transaction, the method of payment, and the name of the payer/recipient. All cash flow – from the *de minimus* \$3.00 receipt to the whopping \$50,000,000 expense – is listed in precise detail. For instance, the ledger statement for the first M/8/40 cargo includes 136 separate entries. Of the 136 items, the payment of \$574,984 for “Agent Commission” is one of only five entries do not list the name of the related party. The other four unidentified transactions appear to be mere accounting adjustments. As a result, even though the ledger indicates the parties involved in dealings as minimal as \$3, it does not indicate who received the massive commission payment of \$574,984.

The same pattern emerges with respect to the second M/8/40 shipment, whose ledger includes 137 different entries. As with the first cargo, this ledger includes only one unnamed transfer of funds – the \$557,402 “Agent Commission.”¹³⁰ Although the ledger details payments as little as \$15, the identity of the “Agent” that received more than \$557,000 was omitted. The ledgers for the other cargoes of M/8/40 follow the same pattern, in which the recipient of the \$2.45 million is conspicuously unidentified.

¹³⁰ Like ledger statement for the first M/8/40 shipment, the second ledger statement includes 4 accounting adjustments that are not linked with an individual or entity.

One Bayoil document indicates that Bayoil paid a 27-cent commission to an unidentified recipient called “Russian/Other.”¹³¹ That document is an undated chart that breaks down the costs and revenues associated with some of Bayoil’s previous shipments. In particular, the document, entitled “Past Basrah Liftings,” lists the costs associated with Bayoil’s shipments from Basrah, one of the two Iraqi export terminals that were authorized under the Oil for Food Program. The chart reveals that, for Bayoil’s previous shipments from Basrah, it had paid a 27-cent payment to “Russians/Other.”

4. Bayoil Financed Illegal Surcharges to the Hussein Regime

While the recipient of Bayoil's \$2.45 million commission is unclear, other documents indicate that Bayoil financed surcharge payments in connection with this contract. One document is a spreadsheet created by an Italian company called Italttech. Italttech maintained an extremely close relationship with Bayoil during the Oil for Food Program. In fact, Bayoil and Italttech entered into a revenue sharing agreement, in which they would split profits generated from Oil for Food transactions.¹³² One of Italttech’s subsidiaries is United Management, the recipient of Bayoil's 17-cent commission in the Phase V Zhirinovskiy transaction. During the surcharge period from September 2000 through mid-2002, Italttech maintained a spreadsheet of the surcharges that Bayoil and Italttech owed to the Iraqis.¹³³ Among other things, the chart listed the date of the relevant shipment, the oil tanker, the amount of oil lifted, and the “fee” owed to SOMO. At the end of the chart appears “Total Due to SOMO for Shipment up to March 1st [2001].” The chart then indicates that Bayoil and Italttech owed SOMO surcharges of \$6,373,070.

The chart also lists “contested payments,” which appear to represent payments from Bayoil and Italttech that they believed should offset their outstanding surcharge debt. One of those “contested payments” is a payment to “Tiumen,” an apparent reference to Tyumen, Bayoil's Russian purchasing agent for Zhirinovskiy’s Phase VIII allocation. The chart states that Bayoil/Italttech “had already paid about 33 centsper [*sic*] barrel to Co TIUMEN.” According to the chart, that 33-cent payment to Tyumen amounted to \$546,004. Therefore, Bayoil/Italttech was apparently claiming that it had already paid Tyumen \$546,004 and therefore that sum should offset their surcharge obligations.

That \$546,004 payment to Tyumen, according to one SOMO document, was forwarded to SOMO as a surcharge. That document – a chart reflecting all surcharges collected by the Hussein regime under the Oil for Food Program – was created by the Ministry of Oil after the fall of the Hussein regime.¹³⁴ The chart details each contract for the purchase of oil from the imposition of surcharges on September 1, 2000 through the end of the surcharge period in August 2002. The chart indicates (i) the phase when the surcharge was paid, (ii) the name of the purchasing company, (iii) the number of the relevant contract, (iv) the amount of oil lifted, (iv)

¹³¹ See Bayoil chart entitled “Past Basrah Liftings,” undated.

¹³² See, e.g., Revenue Sharing Agreement between Italttech S.r.l. and Bayoil Supply & Trading Ltd., December 27, 2000.

¹³³ See Italttech Chart, untitled, December 29, 2000 – March 1, 2001. Subcommittee staff has reviewed a version of this spreadsheet that was authenticated and signed by an officer of Italttech.

¹³⁴ See SOMO Surcharge Chart (excerpt).

the amount of the surcharge owed, (v) the amount of the surcharge paid, (vi) the amount of the outstanding balance, and (vii) the rate of the surcharge amount.

With respect to Contract M/8/40, the chart reveals that Tyumen paid surcharges totaling \$839,692.10 to Hussein-controlled accounts. That sum was spread over two different payments. The first payment was for \$293,686. The second payment was for \$546,004.50 – virtually the same figure as Bayoil's “contested payment” to Tyumen. Therefore, it appears that Bayoil and Italtech paid \$546,004 to Tyumen and that Tyumen forwarded that payment to the Hussein regime as a surcharge.

5. Zhirinovsky Paid Illegal Surcharges by Giving a Building to Iraq

In addition to the surcharge payment described above, Zhirinovsky gave significant consideration to the Hussein regime in lieu of cash payments. Several senior officials in the Hussein regime provided a similar account about how Zhirinovsky paid non-cash surcharges in connection with Contract M/8/40. According to these officials, Zhirinovsky failed to pay the outstanding surcharge for an extended time, and as a result, “we stopped giving him allocations.”¹³⁵ Zhirinovsky attempted to pay down his outstanding balance, but complained that it was “impossible” for him to do so.¹³⁶ In light of Zhirinovsky's continued intransigence, Vice President Taha Yassin Ramadan traveled to Russia and directly threatened Zhirinovsky: “Pay or get nothing.”¹³⁷

One SOMO document confirms that the Iraqis were having difficulty obtaining the surcharge from Zhirinovsky.¹³⁸ That document, a handwritten memorandum entitled “Position of Companies Regarding the Settlement of Surcharge,” states:

The position of certain companies remains unclear with regard to the settlement of the surcharge, despite the fact they have been invited to report to Baghdad, but they have not yet.”

The memorandum then lists the individuals and entities with outstanding surcharge balances. The fourth entry on the list is “Mr. Zhirinovsky.” The memorandum indicates “He has been invited several times.”

After continued delinquency, Zhirinovsky eventually offered to give the Iraqis a school building that he owned in Moscow as compensation for his remaining surcharge balance.¹³⁹ On March 12, 2002, more than a year after the oil had been lifted, Zhirinovsky wrote to Tariq Aziz

¹³⁵ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005; Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

¹³⁶ Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005.

¹³⁷ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005.

¹³⁸ See SOMO Memorandum “Position of Companies Regarding the Settlement of Surcharge,” undated.

¹³⁹ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005; Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

to take “full responsibility” for the problems associated with the surcharge debt and expressly offered to transfer a building to pay off the “duty” that he owed:

As discussed before I have taken the full responsibility to satisfy your requirements and I would like to underline once again that the only one responsible in this particular case is I [sic]. The process of settling the matters has taken longer time than expected due to a complicated documentation process, for which you are fully aware and duly informed.

During our numerous meetings we discussed question about deliver[y] of building on the free basis in the center of Moscow for Arabic school and you would cover the duty. Today the building registration documents are on the final stage of registration and it will be ready on the April of 2002 [sic].¹⁴⁰

The Iraqis accepted Zhirinovsky’s offer, and Zhirinovsky handed over the deed to this building at the Iraqi embassy in Moscow.¹⁴¹ In relaying these facts to the Subcommittee, one official confirmed that he personally observed the transfer of the deed, saying: “I was there personally.”¹⁴²

Zhirinovsky’s transfer of the building to the Iraqis was confirmed in a memorandum written by the Iraqi Ministry of Oil after the fall of the Hussein regime.¹⁴³ According to the pertinent section of that memorandum, entitled “Collecting the surcharge,” Zhirinovsky “pretended” that he could not pay the surcharge in cash, and therefore, transferred the ownership of the building:

[T]he sum of \$840,000 was collected in vain through the transfer of ownership of a house on behalf of the Iraqi embassy in Moscow, which was used later on as an Iraqi school (the sums Mr. Zhirinovsky owed, and which he pretended not being able to pay in cash; therefore the house was accepted in return).

One high-ranking official interviewed by the Subcommittee confirmed that the value of the building was roughly \$840,000.¹⁴⁴ Another official – the one who was present at the Iraqi

¹⁴⁰ See Letter from Vladimir Zhirinovsky to Tariq Aziz, March 12, 2002.

¹⁴¹ Subcommittee Interview of Vice President Taha Yassin Ramadan, April 18, 2005; Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005; Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

¹⁴² Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

¹⁴³ See SOMO Memorandum (excerpt entitled “Collecting the surcharge”), undated.

¹⁴⁴ Subcommittee Interview of Senior Hussein Regime Official No. 1, April 2005.

embassy when Zhirinovskiy transferred the deed – stated that the building was “worth about \$800,000.”¹⁴⁵

I. The Eighth Allocation to Zhirinovskiy (Phase IX)

1. Zhirinovskiy Leads Another Delegation to Iraq

On May 3, 2001, Vladimir Zhirinovskiy led yet another Russian delegation to Baghdad. The ostensible purpose of this trip was to attend an international conference concerning the U.N. “blockade” of Iraq. At the conference, Zhirinovskiy met with Deputy Prime Minister Tariq Aziz, one of the members of the oil allocation committee. Both men called for Russia to unilaterally withdraw from the U.N. sanctions regime, and Zhirinovskiy called for Russia to take active measures to cancel the sanctions. Two days later, on May 5, 2001, Zhirinovskiy met with another member of the committee that doled out oil allocations, Vice President Taha Yassin Ramadan. During that meeting, the two men discussed the impact of U.N. sanctions on Iraq.¹⁴⁶

2. While Zhirinovskiy is in Baghdad, a Russian Company Contracts for His Allotment of Oil

On the same day that Zhirinovskiy met with the Vice President of Iraq, a Russian company signed a contract to buy oil that had been allocated to Zhirinovskiy. The Russian company, called Machinoimport, signed Contract M/9/119 for 4 million barrels of Iraqi crude. Immediately after the contract was signed, SOMO followed its typical protocol and requested approval of the contract from the Oil Minister.¹⁴⁷ In that letter, SOMO indicates that the 4 million barrels of oil addressed in Contract M/9/119 was allotted to Zhirinovskiy:

As per the approval of your Excellency on 5/1/2001, we have allocated 4 million barrels to the Machinoimport Company (on behalf of Mr. Zhirinovskiy) and signed a contract as per the following terms:

- 1 – Number of Contract: M/9/119 Date:
5/5/2001**
- 2 – Name of Company Buyer: Machinoimport**

Another SOMO document confirms that the 4 million barrels of Contract M/9/119 had been granted to Zhirinovskiy. That document is a chart dated June 14, 2001 and entitled “Exports of Iraqi Crude Oil as Per the Memorandum of Understanding/Phase 9 from 12/7/2000 to 6/3/2001.”¹⁴⁸ As the title indicates, the chart lists the recipients of allocations, the companies that contracted for the allotted oil, and the status of the related exports. The chart contains an

¹⁴⁵ Subcommittee Interview of Senior Hussein Regime Official No. 2, April 2005.

¹⁴⁶ See Interfax News Agency, May 5, 2001.

¹⁴⁷ See Letter from Saddam Hassan to Minister of Oil, May 6, 2001.

¹⁴⁸ See SOMO chart entitled “Export of Iraqi Crude Oil as per the Memorandum of Understanding/Phase Nine from 12/07/2000 to 06/03/2001,” June 14, 2001.

entry for the Machinoimport contract, which has a contracted volume of 4 million barrels. The name of the purchasing company is “Machinoimport (Zhirinovsky).”

Contract M/9/119 ultimately resulted in three cargos lifted in July and August 2001.¹⁴⁹ Although the Subcommittee’s evidence demonstrates that oil was indeed lifted pursuant to M/9/119, the Duelfer Report suggests that oil was not lifted in connection with this contract, stating that M/9/119 was “Not Performed.”¹⁵⁰ The cause of this discrepancy is unclear.

J. The Ninth Allocation (Phase X)

1. Zhirinovsky Receives 9th Allocation and Machinoimport Contracts for the Allotted Oil

On July 18, 2001, SOMO executed Contract M/10/19 with Machinoimport.¹⁵¹ The volume of oil for that contract was 8 million barrels. In keeping with its established tradition, SOMO informed the Minister of Oil of Contract M/10/19 and requested his approval.¹⁵² SOMO’s description of the contract confirms that Zhirinovsky received an allocation in Phase X:

Based on the allocations statement, a contract has been signed with Russian Company Machinoimport (on behalf of Mr. Zhirinovsky)...

The Oil Minister approved the contract the next day, July 21, 2001.

On the same day, SOMO informed the “Financial Department” of the contract.¹⁵³ Once again, in describing the contract, SOMO confirms that the oil contracted in M/10/19 had been allocated to Zhirinovsky:

A contract has been signed on 7/18/2001 to supply the aforesaid buyer [Machinoimport] with crude oil as per the following details:

1 – Name of Company Buyer: Machinoimport Russian (on behalf of Mr. Zhirinovsky)

Notably, SOMO also informs the Minister of Oil that a “Surcharge” would be “Payable within one month of loading.” That surcharge will be discussed in detail below.

For an unknown reason, SOMO and Machinoimport later reduced the volume of this contract by half – from 8 million barrels to 4 million.¹⁵⁴ SOMO then informed the “Financial

¹⁴⁹ See SOMO Commercial Invoice Nos. C/100/2001, C/101/2001, and B/118/2001.

¹⁵⁰ See Duelfer Report, Annex B at 184.

¹⁵¹ See SOMO Crude Oil Sales Contract No. M/10/19 (cover and signature pages).

¹⁵² See Letter from SOMO to Oil Minister, July 20, 2001.

¹⁵³ See Letter from SOMO to “Financial Department,” July 21, 2001.

¹⁵⁴ See Addendum No. 1 to Contract No. M/10/19, July 18, 2001.

Department” of the revised contract volume and, in describing the contract, SOMO once again declared that the oil was allocated “on behalf of Mr. Zhirinovsky”:

Following to our memorandum dated 7/21/2001, we made an agreement with [Machinoimport] to change the contractual quantities (on behalf of Mr. Zhirinovsky) from 8 million barrels to 4 million barrels...¹⁵⁵

2. Bayoil Contracts with Machinoimport

As SOMO proceeded internally, Machinoimport and Bayoil were engaged in contract negotiations. Bayoil’s President David Chalmers wrote to Machinoimport on August 7, 2001 and indicated that Bayoil Senior Adviser Ludmil Dionissiev would “visit” with Machinoimport the next day. The purpose of Dionissiev’s visit was to conduct “detailed discussions” about purchasing Iraqi crude oil.¹⁵⁶

On August 14, 2001, several days after this scheduled meeting, Bayoil and Machinoimport executed an “Agency Agreement” concerning the purchase of Iraqi oil in connection with Contract M/10/19.¹⁵⁷ Certain aspects of this agreement are noteworthy. First, Bayoil agreed to purchase from Machinoimport half of the oil covered by M/10/19, which amounted to roughly 2 million barrels.¹⁵⁸ Machinoimport, on the other hand, would act as Bayoil’s purchasing agent, including scheduling the loadings of the oil with SOMO, “carry[ing] out operational correspondence” with SOMO and “mak[ing] contacts” with Iraqis on behalf of Bayoil.¹⁵⁹ For Machinoimport’s efforts, Bayoil would pay a 40-cent-per-barrel commission, amounting to an estimated \$800,000.¹⁶⁰ One other provision merits attention; specifically, in § 7.2 of the contract, Machinoimport affirms that no surcharge was paid to the Hussein regime in connection with Contract M/10/19:

[Machinoimport] specifically warrants that no surcharge or other payment was made to S.O.M.O. by [Machinoimport], or to [Machinoimport]’s knowledge by any third party, outside the U.N. escrow account in obtaining the crude oil sold to [Bayoil] hereunder.

From this provision, it is clear that both Bayoil and Machinoimport knew of the demand for illegal surcharges, and recognized that such under-the-table payments were not permitted.

¹⁵⁵ See Letter from SOMO to “Financial Department,” August 18, 2001.

¹⁵⁶ See Letter from David B. Chalmers, Jr. to Machinoimport, August 7, 2001

¹⁵⁷ See Agency Agreement No.50-0601/72011/M/10/19-/B-K, dated August 14, 2001 (the “Bayoil-Machinoimport Agreement”).

¹⁵⁸ See Bayoil-Machinoimport Agreement, Preamble, § 1.2, § 6.7, §7.1.

¹⁵⁹ See *id.* at §1.2.

¹⁶⁰ See *id.* at §2.1.

3. Bayoil Lifts Oil Allocated to Zhirinovskiy and Pays More Than \$800,000 to Machinoimport

On September 3, 2001, two weeks after the Bayoil-Machinoimport contract was signed, the oil tanker *Amazon Eagle* lifted 2,098,421 barrels of Iraqi crude oil on behalf of Bayoil.¹⁶¹ On September 21, 2001, pursuant to the Bayoil-Machinoimport Agency Agreement, Machinoimport submitted an invoice requesting payment of its 40-cent-per-barrel commission.¹⁶² The invoice recites that the *Amazon Eagle* shipped 2,098,421 barrels, and as a result, Machinoimport was owed precisely \$839,368.40. While the payment information on this invoice is illegible, Machinoimport apparently requested that Bayoil forward payment to an account for the benefit of a third party. Later that day, Bayoil responded to Machinoimport's invoice, indicating that its bank refused to make payment to an account held in the name of anyone other than Machinoimport.¹⁶³

Machinoimport complied with Bayoil's request and resubmitted an invoice stipulating an account at Cyprus Popular Bank Ltd. in Machinoimport's name.¹⁶⁴ Later that day, Bayoil instructed its bank to pay \$839,368.40, the requested amount, to the listed Cyprus Popular Bank account.¹⁶⁵ The next day, October 5, 2001, Bayoil's bank confirmed that it had transferred "USD 839368,4" from Bayoil's account to Machinoimport's account at Cyprus Popular Bank.¹⁶⁶ Bayoil's ledger statement for this *Amazon Eagle* cargo similarly confirms that Bayoil paid \$839,368.40 on October 5, 2001 to Machinoimport.

4. Machinoimport Pays a Massive Surcharge to the Hussein Regime

After receiving the \$839,368.40 payment from Bayoil, Machinoimport apparently forwarded the majority of that amount to the Hussein regime as an under-the-table surcharge. As noted in the SOMO's letter to the Minister of Oil on July 20, 2001, which is discussed above, Machinoimport promised to pay the Hussein regime a "surcharge" "within one month of loading" the oil pursuant to M/10/19. Machinoimport did in fact pay such a surcharge in connection with M/10/19, according to the SOMO Chart entitled "List of Surcharges per Agreement."¹⁶⁷ That chart, which was discussed above, detailed every surcharge payment, showing each contract number, amounts owed and paid, and the identity of the payer. With respect to Contract M/10/19, the chart confirms that Machinoimport lifted a total volume of

¹⁶¹ See SOMO Commercial Invoice No. C/119/2001. Bayoil's internal documents confirm that it purchased this shipment. See, e.g., Bayoil chart entitled "Bayoil Cargoes Loaded Under U.N. Oil-For-Food Program (1997-2003)" (listing purchase of cargo of oil aboard *Amazon Eagle* supplied by Machinoimport with bill of lading dated 9/3/2001 for 2,098,421 barrels).

¹⁶² See Machinoimport Commercial Invoice NO 50-0601/72011/M/10/19/B-K-1 Dated 21.09.01.

¹⁶³ See Letter from Bayoil to Machinoimport, September 21, 2001. Notably, the bank Bayoil used in this transaction was different from the banks it had used in previous transactions, in which payments to third-party entities occurred without incident.

¹⁶⁴ See Machinoimport Invoice 50-0601-72011/M/10/19-/B-K-1, October 4, 2001.

¹⁶⁵ See Letter from Bayoil to Banque Cantonale Vaudoise, Lausanne ("BCV"), October 4, 2001.

¹⁶⁶ See Message from BCV to Bayoil, October 5, 2001.

¹⁶⁷ See Surcharge Chart (excerpt).

4,070,248 barrels, and under the heading “Surcharge per Agreement,” that Machinoimport agreed to a surcharge of 30 cents per barrel. The “Total Amount Owed,” according to the chart, was \$1,221,074.40. The chart then shows that Machinoimport paid the surcharge amount in full.

As noted above, Bayoil purchased only half of the oil lifted pursuant to M/10/19, totaling 2,098,421 barrels. Accordingly, the surcharge owed for Bayoil’s share of the oil amounted to \$629,526.30. Therefore, Bayoil paid a 40-cent-per-barrel premium to Machinoimport, which amounted to \$839,368.40. Machinoimport then paid the Hussein regime a 30-cent-per-barrel surcharge to the Hussein regime, which (for Bayoil’s share) should have equaled \$629,526.30. It is unclear the extent to which Bayoil knew of Machinoimport’s illegal surcharge payment to the Hussein regime.

K. The Tenth Allocation (Phase X)

For an unknown reason, Zhirinovsky received a second oil allocation from the Hussein regime in Phase X. This allocation followed the pattern of the other Phase X transaction – a Russia-based oil company contracted with SOMO to purchase the oil, Bayoil bought the oil from the Russian company for a sizeable premium, and a massive, under-the-table surcharge was paid to the Hussein regime.

1. Zhirinovsky Receives Another Allocation & Lukoil is the Contracting Party

On July 26, 2001, Zhirinovsky wrote to Tariq Aziz to inform him that yet another Russian oil company would contract for his allotted oil.¹⁶⁸ In that letter, Zhirinovsky stated that he had a “cooperation” with the subsidiary of the Russian oil giant Lukoil, which would contract for his oil in 2001:

I would like to confirm that I have a cooperation with the company “Lukoil Asia Pacific Pte Ltd” during the next phase of the United Nations oil-for-food agreements.

Next allocation for this phase of 2001, in an amount of 4 million barrels of oil should be assigned to “Lukoil Asia Pacific Pte Ltd” for the contracting and lifting.

One month later, on August 26, 2001, Lukoil Asia Pacific PTE Ltd. executed Contract M/10/67 with SOMO for the purchase of 4 million barrels of crude oil.¹⁶⁹ In typical form, SOMO requested the Minister of Oil’s approval of the contract.¹⁷⁰ That letter, like its predecessors, confirms that the allocation underlying that contract had been granted to “Mr. Zhirinovsky”:

¹⁶⁸ See Letter from Vladimir Zhirinovsky to Tariq Aziz, July 26, 2001.

¹⁶⁹ See SOMO Crude Oil Sales Contract No. M/10/67 (cover and signature pages).

¹⁷⁰ See Letter of Saddam Hassan to Oil Minister, August 27, 2001.

Based on the allocations statement, a contract has been signed with Lukoil Russian Company (on behalf of Mr. Zhirinovsky)...¹⁷¹

Like SOMO's approval letter for the previous Phase X allocation, SOMO also informs the Minister of Oil that a surcharge would be paid within one month of loading the oil.¹⁷² The Minister of Oil approved the contract several days later.

Another SOMO document further confirms that the allocation for M/10/67 had been granted to Zhirinovsky. That document, a SOMO letter to the "Financial Department," indicates that Contract M/10/67 was with "Lukoil Asia Company (Mr. Zhirinovsky)."¹⁷³

2. Lukoil Lifts the Oil on Behalf of Bayoil & Bayoil Pays \$1.1 Million Surcharge

On October 10, 2001, the vessel *Licorne Pacifique* lifted 1,908,566 barrels of Iraqi crude oil pursuant to Contract M/10/67.¹⁷⁴ Several days later, the oil tanker *Astro Gamma* lifted 1,833,263 barrels in connection with M/10/67.¹⁷⁵ Bayoil purchased those shipments from Lukoil, as reflected in the chart entitled "Bayoil Cargoes Loaded Under the UN Oil-For-Food Program (1997-2003)."¹⁷⁶ In purchasing these shipments, Bayoil paid Lukoil a 3-cent-per-barrel premium, which amounted to \$112,254.87.¹⁷⁷

In addition to the commission payment to Lukoil, Bayoil made two large payments to "Plasco Shipping" – the same mysterious company that Bayoil paid 17-cents-per-barrel (\$1,333,373.92) in connection with Zhirinovsky's Phase VI allocation. According to Bayoil's ledger statement for the M/10/67 shipments, Bayoil paid \$1,122,548.70 to Plasco Shipping in connection with those cargoes. That sum is exactly 30 cents for each barrel lifted under M/10/67.

¹⁷¹ It is noteworthy that SOMO understood that Lukoil's parent company in Russia was the contracting party, not the Asian subsidiary.

¹⁷² See Letter from Saddam Hassan to Oil Minister, August 27, 2001 (stating "Surcharge: Payable within one month") (cited above).

¹⁷³ See Letter from Saddam Hassan to "Financial Department," August 27, 2001.

¹⁷⁴ See SOMO Commercial Invoice No.C/147/2001.

¹⁷⁵ See SOMO Commercial Invoice No. Invoice No. B/182/2001.

¹⁷⁶ See Bayoil chart entitled "Bayoil Cargoes Loaded Under U.N. Oil-For-Food Program (1997-2003)" (excerpt).

¹⁷⁷ See Letter from Lukoil Asia Pacific PTE Ltd to Bayoil Supply and Trading Limited, November 2, 2001 (fax of invoice for payment of \$57,256.98 premium for *Licorne Pacific [sic]* shipment, indicating that the "contractual premium" was "USD 0.03 per U.S. bbl"); see also, Bayoil General Ledger (excerpt of ledger for *Licorne Pacifique* cargo reflecting payment of \$57,256.98 to "Lukoil Petro"); see also Letter from Lukoil Asia Pacific PTE Ltd to Bayoil Supply and Trading Limited, November 9, 2001 (invoice for payment of \$54,997.89 premium for *Astro Gamma* cargo, indicating that the "contractual premium" was "USD 0.03 per U.S. bbl"); see also, Bayoil General Ledger (excerpt of ledger for *Astro Gamma* cargo reflecting payment of \$54,997.89 to "Lukoil Petro").

Shipment	Oil Lifted (barrels)	Rate of Plasco Commission	Payment to Plasco Shipping
<i>Licorne Pacifique</i>	1,908,566	30 cents/barrel	\$572,569,80
<i>Astro Gamma</i>	1,833,263	30 cents/barrel	\$549,978.90
Total Payments to “Plasco Shipping” by Bayoil under M/10/67 = \$1,122,548.70			

It is important to note that, aside from the entries in the ledger statements, the Subcommittee could not identify a single reference to Plasco Shipping in Bayoil’s files. The Subcommittee conducted a thorough review of the pertinent files, and despite the fact that Bayoil paid Plasco more than \$1.1 million, Bayoil’s documents concerning these cargoes do not contain a contract with Plasco or any correspondence involving Plasco. In short, there is no evidence that Plasco provided any service whatsoever for Bayoil to merit payments totaling \$1,122,548.70.

The facts suggest that those transfers to Plasco were illegal, under-the-table surcharges to the Hussein regime. As noted above, the Ministry of Oil prepared a detailed register of each contract for which a surcharge was paid.¹⁷⁸ That Surcharge Chart indicates that, for Contract M/10/67, a surcharge of 30 cents per barrel was paid to the Hussein regime. The total surcharge owed for Contract M/10/67 was \$1,122,548.70 – the exact amount that Bayoil paid to “Plasco Shipping” for that contract. The chart further confirms that the surcharge had been paid.¹⁷⁹ The chart suggests that Bayoil’s payment of \$1,122,548.70 to “Plasco Shipping” financed an illegal surcharge to the Hussein regime.

L. The Thirteenth Allocation (Phase XI)

Zhirinovsky was granted another allocation from the Hussein regime in Phase XI of the Program. On January 16, 2002, the Russian company Machinoimport executed an oil contract with SOMO, in which Machinoimport agreed to purchase 5.5 million barrels.¹⁸⁰ In keeping with its established protocol, SOMO requested approval of that contract, which was numbered M/11/79.¹⁸¹ Like previous Zhirinovsky transactions, SOMO indicated that the contracted oil had been allocated to Zhirinovsky:

¹⁷⁸ See Surcharge Chart (excerpt).

¹⁷⁹ Notably, the Surcharge Chart indicates that the surcharge was actually overpaid by \$122.30. The cause of this discrepancy is unclear.

¹⁸⁰ See SOMO Crude Oil Sales Contract No. M/11/79 (cover and signature pages).

¹⁸¹ See Letter from Ali Rajab Hassan to Oil Minister, January 16, 2002.

Based on the statement of allocations in phase eleven, a contract has been signed with Machinoimport Company (on behalf of Mr. Zhirinovsky) [].

At the end of the letter, SOMO also indicates that the parties had agreed that a surcharge would be “payable within one month from the date of loading.” The Oil Minister approved the contract, and 5.2 million barrels of oil were later lifted pursuant to Contract M/11/79. The Surcharge Chart discussed previously indicates that the Hussein regime was paid \$1,584,399.30 in surcharges in connection with Contract M/11/79.¹⁸²

M. The Fourteenth Allocation (Phase XII)

According to the SOMO Allocation Chart discussed above, Zhirinovsky received another allocation in Phase XII of the Program. The volume of that allocation was 4 million barrels. According to SOMO records, the oil allotted to Zhirinovsky in Phase XII was never lifted.



¹⁸² See Surcharge Chart (excerpt).