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Norm Coleman, Chairman

Carl Levin, Ranking Minority Member

**REPORT ON OIL ALLOCATIONS
GRANTED TO
THE RUSSIAN PRESIDENTIAL COUNCIL**

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



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***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 the former regime of Saddam Hussein attempted to influence the Russian government through the issuance of lucrative allocations of oil under the U.N. Oil-for-Food Program.¹ In addition, this Report reveals how the recipients of these oil allocations utilized a series of trading companies and other intermediaries in Cyprus and the Channel Islands to execute the transactions necessary to monetize the oil allocations. Bayoil,² an American oil trader, performed the actual liftings of oil from Iraqi ports and paid massive “premiums” and “commissions” to the trading companies and intermediaries amounting to millions of dollars. Finally, this Report details how funds transferred by Bayoil to certain intermediaries resulted in the payment of millions of dollars in illegal, under-the-table surcharges to the Hussein regime.

I. BACKGROUND

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

Under the Oil-for-Food Program, Iraq was permitted to sell its oil and use the proceeds to purchase food, medicine, and other humanitarian goods. As is well documented, the Hussein regime quickly exploited the Program for its own purposes. One of the regime’s chief strategies was the use of “oil allocations” to garner political influence and reward allies around the globe.

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 a division of the Ministry of Oil called the State Oil Marketing Organization, or “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. These units were allocated to prospective oil purchasers, essentially giving those recipients an option to purchase that allotment of oil. These options were typically called “allocations.” Once SOMO and the oil purchaser agreed on other contractual terms, such as the loading schedule, the purchaser would execute a contract with SOMO, purchase the oil, and ship its allotted quantity.

Soon after the initiation of the Program, however, the Hussein regime used the allocation process to maximize Iraq’s influence around the world. The plan was simple: rather than granting allocations to traditional oil purchasers, the Hussein regime gave priority to foreign officials, journalists, and even terrorist entities.³ 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 U.N. sanctions.⁴ To that end, the Hussein regime favored individuals and political parties from countries that were members of the U.N. Security Council. Senior Hussein

¹ The phrase “Oil-for-Food Program” refers to the humanitarian aid program implemented pursuant to U.N. Security Council Resolution 986, dated April 14, 1995, and the Memorandum of Understanding between the Secretariat and the Government of Iraq dated 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., as well as its subsidiaries and affiliates, such as Bayoil Supply and Trading Limited, Bayoil Technologies, and Bayoil SA.

³ Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, and Senior Hussein Regime Official No. 1, April 14, 2005. Terrorist individuals and entities who received allocations include the Popular Front for the Liberation of Palestine, Abu Abbas, and the Mujahedin-e Khalq.

⁴ Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005 and Vice President Taha Yasin Ramadan, April 18, 2005.

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.⁵ The recipients of the allocations were chosen by a committee of Hussein's closest advisors, including Deputy Prime Minister Tariq Aziz and Vice President Taha Yasin Ramadan.⁶ SOMO documents reveal that these individuals -- along with Saddam Hussein himself -- were personally involved in the process.⁷ Some of those documents are presented in this Report.

By granting the rights to purchase oil to a limited number of individuals and entities, the regime forced oil purchasers to obtain allocations from those favored few. The 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 amounted to 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 direct the payment of millions of dollars to a foreign official, political party, journalist, or terrorist entity without incurring any loss.

B. Efforts to Influence Russian Policy Towards Iraq by Awarding Oil Allocations

Russia topped the list of nations from whom the Hussein regime wanted support at the Security Council. As a result, the Hussein regime granted allocations to Russian individuals, political parties, and others due to their good relationship with Iraq and their support for the lifting of sanctions.⁸ The oil allocations, which could be sold for large commissions, often resulted in pecuniary gain for the recipient.⁹ The Vice President of the Hussein regime, Taha Yasin Ramadan, confirmed to the Subcommittee that oil allocations were indeed "compensation for support."¹⁰ Another senior official from the Hussein regime confirmed that the oil allocation scheme was for the purpose of "buying influence."¹¹ The scale of the oil allocations given to Russian individuals and political parties was substantial, totaling approximately 30 percent of all the oil allocated during the course of the Program.¹² One Russian political party that received a large number of allocations was the Unity Party (now known as the Unified Russia Party¹³), a pro-Kremlin party associated with Russian president Vladimir Putin. Tariq Aziz stated that the Unity Party received such a large number of allocations because Russia was taking positions at the Security Council that were favorable to Iraq.¹⁴ Vice President Ramadan stated that the Unity Party received the largest quantity of allocations in Russia

⁵ Subcommittee interview of Deputy Prime Minister Tariq Aziz, April 21, 2005; Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD dated September 30, 2004, Volume 1 ("Duelfer Report"), p. 31.

⁶ Subcommittee interview of Deputy Prime Minister Tariq Aziz, April 21, 2005.

⁷ *Id.*

⁸ Subcommittee interview of Senior Hussein Regime Official No. 1, April 14, 2005.

⁹ *Id.*

¹⁰ Subcommittee interview of Vice President Taha Yasin Ramadan, April 18, 2005.

¹¹ Subcommittee interview of Senior Hussein Regime Official No. 2, April 20, 2005 and Deputy Prime Minister Tariq Aziz, April 21, 2005.

¹² Duelfer Report, p. 31.

¹³ The Unified Russia Party currently holds 37% of the seats in the State Duma. The next highest percentage is held by the Communist Party, which holds 12% (December 7, 2003 election results). CIA World Factbook (2005).

¹⁴ Subcommittee interview of Deputy Prime Minister Tariq Aziz, April 21, 2005.

because it was the governing party and the party of the president.¹⁵ Other key Russian recipients of oil allocations included the Ministry of Foreign Affairs, the Communist Party, and the Liberal Democratic Party of Russia. The focus of this Report -- the Russian Presidential Council -- also received a significant number of oil allocations.¹⁶ The Russian Presidential Council consisted of advisors appointed by the Russian president who were responsible for devising presidential policy, drafting presidential decrees, and coordinating policy among government agencies.

At the head of the Russian Presidential Council was Alexander Stalevich Voloshin, who was originally appointed to that position by former president Boris Yeltsin and reappointed by President Putin upon Putin's ascendancy to the presidency in December 1999. Although Voloshin resigned in late 2003 over a scandal involving the Russian oil giant Yukos, there is little debate over the magnitude of Mr. Voloshin's influence in Russian government during the Oil-for-Food Program. Mr. Voloshin, whose middle name means "son of steel," was widely known as the "power behind the throne" at the Kremlin. Mr. Voloshin reportedly assisted in President Putin's rise to power, managed Putin's first election campaign, and helped to create the pro-Kremlin Unity Party.¹⁷ He was once referred to as "de facto ... Russia's most powerful man" after President Putin, as well as the "eminence grise" behind President Putin.¹⁸ Alexi Mukhin, a Moscow lobbyist, described Mr. Voloshin as a guide for those who needed things "fixed" at the Kremlin:

In any ministry or department there are fixers. ... [T]hey get money for bringing things to people's attention. These are people who don't use the main road but take the tracks by the side of the road, which are faster, with less traffic and fewer checkpoints. Voloshin was a guide along that path.¹⁹

The Hussein regime had reason to believe that Mr. Voloshin would be an effective conduit to President Putin. Kremlin adviser Gleb Pavlovsky was quoted as saying that "the Putin-Voloshin link is the strongest link in the political game."²⁰ Former Hussein regime officials apparently shared that belief. Vice President Ramadan recognized Mr. Voloshin as the head of Russia's presidential administration and stated that the oil allocations awarded to him had been approved by Saddam Hussein.²¹ Other regime officials stated that the allocations given to Mr. Voloshin were a show of support to him, and were granted to him because of his relationships with "very important characters."²² To date, Mr.

¹⁵ Subcommittee interview of Vice President Taha Yasin Ramadan, April 18, 2005.

¹⁶ Various sources have alternatively referred to this entity as the "Presidential Administration" and the "Presidential Executive Office." Since the former Hussein regime referred to it as the "Presidential Council" this Report will, for the sake of consistency and clarity, use that terminology. 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.

¹⁷ *Voloshin, power behind the throne in two Kremlin administrations*, Agence France Presse, October 30, 2003; *Key Kremlin Figure Removed*, BBC News, October 30, 2003.

¹⁸ *European Press Review*, BBC News, citing Austria's *Der Standard*, October 30, 2003; Nikolai Gorshkov, *Kremlin 'coup' forces key Putin choice*, BBC News, October 29, 2003.

¹⁹ Rafael Baer, *Power Behind the Throne - Alexander Voloshin*, Financial Times, May 17, 2003.

²⁰ *Id.*

²¹ Subcommittee interview of Vice President Taha Yasin Ramadan, April 18, 2005.

²² Subcommittee interviews of Senior Hussein Regime Official No. 1, April 14, 2005 and Senior Hussein Regime Official No. 2, April 20, 2005.

Voloshin has declined to comment on the allegations that he received oil allocations from the Hussein regime.

Another name associated with the allocations to the Russian Presidential Council was Sergey Issakov, a known friend of Mr. Voloshin.²³ As detailed in this Report, Mr. Issakov traveled to Iraq on several occasions and executed many of the contracts associated with allocations to the Russian Presidential Council. The former Deputy Prime Minister stated that the purpose of giving allocations to Mr. Issakov was to buy influence.²⁴

The influence desired by the Hussein regime was that which would bring an end to the sanctions against Iraq -- influence which could be brought to bear only at the U.N. Security Council. Establishing a direct correlation between an oil allocation and a specific vote in the Security Council is problematic. Former regime officials, however, described one such occurrence.²⁵ In the summer of 2000, the United States proposed a resolution at the Security Council to restrict the illicit trade occurring at Iraq's borders in violation of the sanctions. Russia, however, threatened to use its veto on the proposal, effectively ending any efforts to pass the resolution. Hussein instructed his subordinates to "show gratitude" to the Russians for supporting Iraq in the Security Council on that issue.²⁶ This gratitude entailed giving the Russians additional oil allocations and commodity contracts in order to repay them for the threatened use of the veto and for their future cooperation. This was a "new shift" since it was the first time that oil allocations were linked to a specific act.²⁷

There are other examples of where Russia took positions at the Security Council that favored the Hussein regime and opposed the position of Security Council members who sought to enforce the sanctions. In 2001, Russia reportedly fought off efforts to shorten the list of companies eligible to contract for Iraqi oil and was in turn rewarded with large oil contracts:

This dominance [by Russian trading firms] occurs as Russia continues to thwart US-British efforts to shorten the list of eligible firms that buy Iraqi crude. ... [O]n Monday and Tuesday, three Russian companies were awarded a total of 30 [million] barrels of Iraqi crude, showing that Baghdad is rewarding Moscow for fending off a US-British plan to overhaul sanctions, diplomats said.

Britain and the US have since last autumn led efforts in the UN Iraqi sanctions committee to limit the firms that can buy Iraqi crude because they fear some oil firms accept demands for under-the-table payments directly to Baghdad and against UN sanctions.²⁸

One of the three beneficiaries named in the article quoted above was Rosnefteimpex, which had signed a contract with SOMO on July 14, 2001 for 17 million barrels of oil that had been allocated to the Russian Presidential Council.²⁹

²³ Subcommittee interview of Senior Hussein Regime Official No. 2, April 20, 2005.

²⁴ Subcommittee interview of Deputy Prime Minister Tariq Aziz, April 21, 2005.

²⁵ *Id.*

²⁶ Subcommittee interview of Senior Hussein Regime Official No. 1, April 14, 2005.

²⁷ *Id.*

²⁸ *Russian firms continue to dominate Iraqi crude sales*, Lloyd's List, July 27, 2001.

²⁹ Contract between Rosnefteimpex and SOMO designated M/10/15 dated July 14, 2001 (*See II. D., infra*).

Another example of mutual support between Russia and Iraq involves Russia's opposition in 2002 to the practice of "retroactive pricing," a tool used by the United States and the United Kingdom to combat Iraq's scheme of selling oil at below market rates for the purpose of generating revenue to be split between the Hussein regime and the recipients of oil allocations. On August 16, 2002 the Russian Foreign Ministry (itself a recipient of oil allocations for massive quantities of oil) published a press release calling for a special session of the Iraq Sanctions Committee to address the issue:

Russia has come up with an initiative to hold a special session of the U.N. Security Council Iraq Sanctions Committee to discuss ... the continuing practice of retroactive pricing of the oil exported by Iraq. The delegation of Russia intends to decisively raise the question of changing the pricing mechanism imposed on the Committee and reverting to the previous, consensus-based procedure for setting the price of oil in advance³⁰

In sum, the evidence suggests that Russian individuals and political parties were consistently favored by the Hussein regime as a result of Russia's support for positions favorable to Iraq at the U.N. Security Council.³¹

C. The Division of Profits and Payment of Surcharges Resulting from Oil Allocations

The profits generated from the monetization of oil allocations were generally divided between the parties to the transaction -- the allocation holder and the company nominated by the allocation holder to execute the contract with the Hussein regime. The company nominated by the allocation holder to execute the contract with SOMO would receive a portion of the profits in the form of a "commission" based on the number of barrels lifted under the contract, usually 2-3¢ a barrel. When asked whether the allocation recipients would personally profit from the oil transactions, one senior Hussein official declared: "That's the whole point."³² Another former senior regime official confirmed the profit-sharing arrangement, and estimated that the oil allocations yielded a 15 percent profit margin which would be split between the allocation holder and the company that executed the contract with SOMO.³³

The director of the Military Industrialization Commission informed Saddam Hussein about the large profits being made from the oil transactions, which upset Hussein.³⁴ As a result, starting in the middle of Phase 8, the Hussein regime required that a portion of the profits resulting from the oil allocations be paid back to the regime as a "surcharge" fee, based on the number of barrels lifted. Between September 1, 2000 and November 30, 2000 the surcharge was 10¢ per barrel of oil lifted.³⁵ Starting on December 1, 2000, the surcharge was increased to 25¢ a barrel for shipments destined for European markets and 30¢ a barrel for shipments destined for the North American market.³⁶ The

³⁰ Press Release from Russian Foreign Ministry: "On Russia's Initiative to Hold a Session of the U.N. Security Council Iraq Sanctions Committee" dated August 16, 2002.

³¹ Subcommittee interview of Deputy Prime Minister Tariq Aziz, April 21, 2005.

³² Subcommittee interview of Senior Hussein Regime Official No. 2, April 20, 2005.

³³ Subcommittee interview of Senior Hussein Regime Official No. 1, April 14, 2005.

³⁴ *Id.*

³⁵ Memorandum of SOMO official titled "Allocations and Sales of Crude Oil in the Phases of the Memorandum of Understanding (1996-2003)" dated February 19, 2004 ("SOMO Memorandum"), Attachment 4 titled "The Surcharge."

³⁶ Memorandum from the Crude Oil Marketing Second Department to the Financial Department dated March 24, 2001; SOMO Memorandum dated February 19, 2004, Attachment 4.

surcharge amount was dropped to 15¢ a barrel starting on May 30, 2002 and was canceled altogether on September 1, 2002.³⁷ The two-year period beginning on September 1, 2000 and ending September 1, 2002 is referred to as the “surcharge period.”

During the surcharge period, the profits generated by oil transactions were split between the allocation recipient, the company that executed the contract with SOMO, and the Hussein regime. One former regime official described the division of profits and payment of surcharges from funds derived from oil allocations as follows:

Source discussed oil allowances and how they were sold through brokerage companies. He stated that the profit margins were not in the \$1's to the brokerage companies but usually in the .15 to .25 per barrel. The profit margins went away completely after 9/2000 when the Saddam Hussein surcharge went into effect.

* * *

Source stated that the proceeds from the sale of the oil allowances are made to pay the brokerage companies and the brokerage companies make the payments to the owner of the oil allowances and to Saddam Hussein for his agreed upon cut.³⁸

Another former regime official described the division of profits similarly, including the surcharge payments made to the Hussein regime:

Source explained his knowledge of the oil allowance program through the following example: The market value for a barrel of oil would be \$25. The oil allowance would be given to whomever at Saddam Hussein's discretion. The oil allowance must be sold through a brokerage company that was willing to participate in the scheme. The brokerage company would submit the contract for the sale of the oil allowance through the U.N. under the [Memorandum of Understanding]. Of the \$25 per barrel amount \$20 would go into the Oil for Food Program account at a French bank. The other five dollars would be split [] with the oil brokerage company receiving \$1 and Saddam and the recipient of the oil allowance sharing the other \$4 with each receiving about \$2 per barrel. The oil brokerage company would make the disbursements into special accounts for Saddam Hussein and the recipient of the oil allowance.³⁹

Many Russian companies who owed surcharge fees to the Hussein regime delivered those payments in cash to the Iraqi embassy in Moscow. From time to time the cash at the Iraqi embassy would be flown to Iraq:

The cash was delivered to the Iraqi embassy in Moscow where it was placed in the accountant's safe. ... When the cash built up to approximately \$3 million to \$4 million (USD), it was couriered to Baghdad in a diplomatic pouch. Approximately every three to four months such a diplomatic pouch

³⁷ SOMO Memorandum dated February 19, 2004, Attachment 4.

³⁸ U.S. Treasury Iraqi Financial Asset Team interview #12 of former regime official, February 1, 2004.

³⁹ U.S. Treasury Iraqi Financial Asset Team interview #15 of former regime official, January 27, 2004.

would be delivered via a special flight from Moscow by the Iraqi ambassador to the trade consulate.⁴⁰

Other officials of the former regime confirmed the arrangement for the payment of surcharges by Russian companies: “A surcharge (either 10% or 10¢ per barrel) was charged to the companies with the surcharge amount paid in cash to the Iraqi embassy in Moscow. ... Representatives from each of the companies purchasing the oil would come to the embassy with a suitcase full of cash and say that this was the surcharge that was due to Iraq.”⁴¹

II. OIL ALLOCATIONS GRANTED TO THE RUSSIAN PRESIDENTIAL COUNCIL

Beginning in Phase 6 and continuing through the end of the Program (with the exception of Phase 7), the Hussein regime allocated 90 million barrels of oil to the Russian Presidential Council.⁴² The Hussein regime allocated the oil to the head of the council, Alexander Voloshin, as well as to his close confidant Sergey Issakov.

Table 1: Oil Allocations to the Russian Presidential Council by Phase.

PHASE	ALLOCATION	ALLOCATION RECIPIENT	ALLOCATION (BARRELS)
VI	1	The Russian Presidential Council	5,000,000
VIII	2	Sergey Issakov (The Russian Presidential Council)	14,000,000
IX	3	Sergey Issakov (The Russian Presidential Council)	16,500,000
X	4	Sergey Issakov (The Russian Presidential Council)	16,000,000
XI	5	Sergey Issakov (The Russian Presidential Council)	16,000,000
XII	6	Sergey Issakov (The Russian Presidential Council)	12,500,000
	7	Alexander Voloshin (The Russian Presidential Council)	3,000,000
XIII	8	Alexander Voloshin (Head of the Russian Presidential Council)	2,000,000
	9	Sergey Issakov (The Russian Presidential Council)	5,000,000

⁴⁰ U.S. Treasury Iraqi Financial Asset Team interview #19 of former regime official, November 29, 2003.

⁴¹ U.S. Treasury Iraqi Financial Asset Team interview #32 of former regime official, November 29, 2003. The practice of depositing surcharge payments at the Iraqi embassy was recently confirmed by another former regime official. Subcommittee interview of Senior Hussein Regime Official No. 2, April 20, 2005.

⁴² SOMO Memorandum dated February 19, 2004, Attachment 5 titled “The Role of Russian Companies During the Phases of the Memorandum of Understanding,” Table 1 titled “Quantities of Crude Oil Allocated to the Companies during the Phases of the Memorandum of Understanding.”

In order to initiate the transaction that would lead to the eventual shipment of the oil, it was first necessary for the allocation recipient to designate a company to actually travel to Baghdad and execute a contract with SOMO. For the first allocation in Phase 6, the Russian Presidential Council designated a Russian oil company -- Rosneft -- to execute the contract with SOMO. Rosneft was the successor entity to the defunct USSR Ministry of Oil, and was then and is now owned and controlled by the Russian government.⁴³

For the allocations granted in Phases 8 through 10, a second company -- "Rosnefteimpex NK Rosneft" -- was designated by the Russian Presidential Council to execute contracts with SOMO. At the time of the OFF Program, Rosnefteimpex was an oil trading subsidiary of Rosneft.⁴⁴ Near the end of the OFF Program Rosneft divested itself of the stock it held in Rosnefteimpex.⁴⁵ Later, after the Oil-for-Food scandal became public, Rosneft claimed that Rosnefteimpex was not a Rosneft subsidiary, despite the fact that Rosneft had owned 56.7% of Rosnefteimpex's voting shares in 2003.⁴⁶ SOMO documents named Sergey Issakov as the contact person for the oil allocations that resulted in contracts between Rosnefteimpex and SOMO. Mr. Issakov was also at the time the deputy chairman of Vnukovo Airlines, and traveled regularly to Iraq in an effort to reestablish flights between Moscow and Baghdad.⁴⁷

Beginning in Phase 11, a third company, called the "Russian Engineering Company" became the designated purchasing agent for the allocations awarded to the Russian Presidential Council. The evidence suggests that the Russian Engineering Company is affiliated with Rosnefteimpex. For example, both companies at one point shared the same address at 37 Leningradsky Prospect, Building 6, in Moscow.⁴⁸ Additionally, Sergey Issakov executed contracts with SOMO on behalf of both Rosnefteimpex and the Russian Engineering Company (on whose board Mr. Issakov currently serves as chairman).⁴⁹ One energy trade publication described the relationship between Mr. Issakov and the two companies as follows:

The contracts [between Rosnefteimpex and SOMO] were signed with Sergei Isakov, a close confidant of the head of the Kremlin administration at the time, Alexander Voloshin, who resigned last year. Isakov would travel back and forth to Baghdad to negotiate the contracts, sources say, and was also responsible for getting allocations on the Kremlin's behalf for the Russian

⁴³ See <http://www.rosneft.ru/english/company/history.html> (website for Rosneft).

⁴⁴ Alexei Sukhodoyev, *Oil Company Promises to be in the Focus of News*, RusData DiaLine - BizEkon News, December 14, 1995; *Russia - The Export Coordinators*, APS Review Oil Market Trends, August 21, 2000.

⁴⁵ *JSC 'Rosneft' sells its stakes in JSC 'GIVTsneftegaz', JSC 'Rosneft-Central Design Office ASUnefteproduct' and JSC 'Rosnefteimpex'*, Skrin Market and Corporate News, February 26, 2003.

⁴⁶ Greg Walters, Valeria Korchagina, *CIA: Russia Got Rich Violating Sanctions*, Moscow Times, October 8, 2004; Ben Wetherall, *Russian Companies Dismiss CIA 'Oil for Food' Allegations*, World Markets Analysis, October 8, 2004.

⁴⁷ *Russian Airline Applies to Run Moscow-Baghdad Flights*, BBC WorldwideMonitoring, April 13, 1998.

⁴⁸ See, letter from Rosnefteimpex to Bayoil dated July 12, 2000 (SNT 015621) (listing both companies at the same address).

⁴⁹ See, <http://www.rectrade.ru/index.php> (website for Russian Engineering Company). The Russian Engineering Company also sold over \$121 million in goods to Iraq under the Program between Phase 7 and 13. See Table 4, "Humanitarian Goods and Oil Spares Purchases by Vendor & Vendor Country per Phase for Central & Southern Regions of Iraq (Sorted by Vendor)," published by the Independent Inquiry Committee into the United Nations Oil-for-Food Programme on October 21, 2004, p. 41.

Engineering Co., which took over the duties of Rosnefteimpex towards the end of the program.⁵⁰

It is not clear why the parties decided to cease using Rosnefteimpex as the designated purchasing agent, but some reports link Rosnefteimpex with the Russian Engineering Company as well as Mr. Issakov's airline. One energy trading publication took note of a large contract signed by the Russian Engineering Company in Phase 11:

Loyalty continues to pay off for the group of Russian companies whose cooperation is rewarded with contracts to lift Iraqi crude under the UN oil-for-food deal. ... The largest volume so far -- 17 million barrels -- has gone to the little-known Russian Engineering Co., the new name for former state oil trader Rosnefteimpex, which received large contracts in previous phases. Moscow sources say the company's barrels originate via Trading House Vnukovo Airlines, which plans to sell a fleet of Tupolev passenger jets to Baghdad once UN sanctions are lifted.⁵¹

Mr. Issakov's travel to and from Baghdad may have been assisted by the fact that Vnukovo Airlines had set up an office there as early as 1998.⁵²

In Phases 12 and 13, the Hussein regime made separate allocations to both Mr. Issakov and directly to the head of the Russian Presidential Council, Alexander Voloshin. Mr. Voloshin nominated a company called "Impexoil LLC" to execute contracts with SOMO for his allocations. Prior to Phase 12, Impexoil had conducted no business under the OFF Program. After serving as the designated purchaser for Mr. Voloshin, however, Impexoil was nominated as the designated purchaser for other Russian entities (such as the Russian Orthodox Church) during Phase 13.⁵³

Once the allocation holder had nominated a company to execute the "official" contract with SOMO, it was necessary to find an oil company capable of actually loading and shipping the oil. For five of the allocations awarded to the Russian Presidential Council, Bayoil was that company. Bayoil was responsible for contracting with shipping companies to lift the Iraqi oil and ship it to end users in North America, Europe, and the Far East. As the entity that was the beneficiary of the profits from the ultimate sale of the oil to the end user, Bayoil was the party responsible for paying the other parties connected to the transaction -- namely, the designated purchaser and the allocation holder. To that end, Bayoil often entered into separate contracts with the designated purchasing agent for the distribution of "premium payments" and "fees" owed by Bayoil to the other parties.

Payments from Bayoil to the allocation holder and the designated purchasing agent (Rosnefteimpex and the Russian Engineering Company) were often routed through a purported "trading company" called Haverhill Trading Limited ("Haverhill"). The payments to Haverhill are suspicious, since Haverhill appears to have performed no function related to the transactions detailed below other than sending invoices to Bayoil for payments owed. The corporate existence of Haverhill is also suspicious. Located in Cyprus, which is known for corporate and bank secrecy laws, Haverhill exists "care of a corporate services company which merely maintains the company's registered office and files appropriate documents with the authorities to comply with the local laws."⁵⁴ Although a man

⁵⁰ *Ciao Baby: Russia Confirmed as Top Lifter of Saddam Oil Contracts*, Nefte Compass, October 14, 2004.

⁵¹ *Baghdad Boys: Iraq Rewards Russian Steadfastness*, Nefte Compass, February 13, 2002.

⁵² *Vnukovo Airlines opens office in Baghdad*, BBC Summary of World Broadcasts, February 17, 1998.

⁵³ Duelfer Report, p. 198. The Subcommittee has discovered very little information about Impexoil.

⁵⁴ Report from *International Company Profile* on Haverhill.

named Oleg Kalougin of Moscow is named as Haverhill's sole director and Marios Kontemeniotis is named as a shareholder, Haverhill's "directors and shareholders are merely nominees for the beneficial owners," whose identities are unknown other than the fact that they are non-Cypriots.⁵⁵ As for its business activities, Haverhill "is not allowed to engage in any trading activity in Cyprus," and the Subcommittee has been unable to determine the exact nature or the extent of Haverhill's operations or where any such operations are conducted.⁵⁶ Nevertheless, millions of dollars flowed through Haverhill in connection with the transactions detailed in this Report.

The transactions described below followed the same basic pattern: (i) At the beginning of each relevant phase, the Hussein regime granted an oil allocation to the Russian Presidential Council, (ii) the allocation holder (either Sergey Issakov or Alexander Voloshin) nominated a company (such as Rosnefteimpex, the Russian Engineering Company, or Impexoil) to act as the nominal purchaser of the oil in exchange for a small commission, (iii) a representative of the nominal purchaser (often Mr. Issakov) traveled to Baghdad and entered into a contract with SOMO to buy the oil allocated to the allocation holder, (iv) the nominal purchaser then entered into a separate contract with Bayoil for Bayoil to lift the oil, and (v) Bayoil lifted the oil and contemporaneously made one or more payments into certain bank accounts in favor of the nominal purchaser or Haverhill. The available evidence indicates that the money wired to those accounts by Bayoil was split between the nominal purchaser and the allocation holder.

The remainder of this Report describes in detail the transactions resulting from each allocation awarded to the Russian Presidential Council.

A. The First Allocation (Phase 6: May 25, 1999 to December 11, 1999)

During Phase 6, the Hussein regime awarded the first of its nine oil allocations to the Russian Presidential Council in an amount of 5 million barrels.⁵⁷ This first allocation resulted in Contract M/06/54 between Rosneft and SOMO. Contract M/06/54, which was executed in Baghdad on June 5, 1999, was for 5 million barrels of oil -- 3 million barrels of Basrah Light crude and 2 million barrels of Kirkuk crude.⁵⁸ As such, the amount of oil contracted for in Contract M/06/54 exactly matched the amount of oil allocated to the Russian Presidential Council. Contract M/06/54 was approved by the U.N. Oil Overseers on June 10, 1999.⁵⁹

Unlike many of the contracts detailed in this Report, Bayoil did not ship any oil under Contract M/06/54 and therefore the Subcommittee is unable to determine whether any money was paid to the benefit of the allocation holder. What is known is that the oil contracted for under Contract M/06/54 was indeed lifted in 6 shipments between June and October 1999, and that a total of 4,973,344 barrels were lifted.⁶⁰

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ Memorandum from the Executive Director of SOMO to the Minister of Oil dated October 5, 1999; SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 175.

⁵⁸ Contract between Rosneft and SOMO designated M/06/54 dated June 5, 1999.

⁵⁹ U.N. Oil Overseers approval of Contract M/06/54 dated June 10, 1999.

⁶⁰ SOMO invoice statements for Contract M/06/54; Duelfer Report, p. 175.

B. The Second Allocation (Phase 8: June 9, 2000 to December 5, 2000)

On the second day of Phase 8, June 10, 2000, prior to the date that any contract was signed by Iraq or approved by the U.N., Bayoil entered into an “Agency Agreement” with Haverhill Trading Ltd. Under the terms of the agreement, Bayoil agreed to purchase and ship 8 million barrels of Basrah Light crude and to pay certain “fees” to both Haverhill and the purchasing agent, Rosnefteimpex. The terms of the agreement were as follows:

According to the Agency Agreement signed between “BayOil Supply & Trading Limited” and “Haverhill Trading Limited” on June 10, 2000 please be kindly asked to sign the Contract with “Rosnefteimpex NK Rosneft” for buying 8 bbls of Basrah light crude oil and pay fees as following:

- **USD 0,02 to “Rosnefteimpex NK Rosneft” as per Contract;**
- **USD 0,12 to “Haverhill Trading Limited” after the nomination of the vessel;**
- **USD 0,10 to “Haverhill Trading Limited” 30 (thirty) days after the [bill of lading].⁶¹**

This “contract before the contract” detailed payments that would be made to parties outside of the Oil-for-Food Program. With the “Agency Agreement” in place, on June 14 the Hussein regime allocated 14 million barrels of oil to the Russian Presidential Council. Sergey Issakov was named as the contact person for the allocation.⁶² A hand-written note to the Executive Director of SOMO on the Phase 8 allocation list indicated that the 14-million barrel allocation to the Russian Presidential Council had been approved at the highest levels of Iraq’s government:

To: The Executive Director of SOMO

Verbal approval of the President Leader, may God protect him, has been obtained as per the verbal notification of the Vice-President of the republic along the margins of the Cabinet’s meeting the morning of 06/25/2000.

Please take the necessary measures for action.⁶³

With the allocation approved and the Bayoil-Haverhill agency agreement in place, Demitry Kossarev of Rosnefteimpex traveled to Baghdad on or about July 4, 2000 and executed Contract M/08/85 with SOMO for 14 million barrels (the same amount allocated to the Russian Presidential Council for Phase 8).⁶⁴ The 14 million barrels were split between 8 million barrels of Basrah Light crude and 6 million barrels of Kirkuk crude.⁶⁵ The terms of Contract M/08/85 were then forwarded in a letter from the Executive Director of SOMO to the Minister of Oil for approval:

⁶¹ Memorandum from Haverhill to Bayoil dated June 10, 2000 (SNT 015625).

⁶² SOMO chart titled “Statement of Allocations for the Phase Subsequent to Phase (7)” dated June 14, 2000.

⁶³ *Id.*

⁶⁴ Contract between Rosnefteimpex and SOMO designated M/08/85 dated July 4, 2000.

⁶⁵ *Id.* Bayoil did not lift any of the Kirkuk oil in connection with Contract M/08/85, and it is not known which company or companies did.

To: [His Excellency] the Oil Minister
Re: Approval on Exported Crude Oil Contracts

Based on the statement of allocations in phase (8), please find below the details of the contract signed with Rosnefteimpex Russian Company on behalf of Mr. Issakov (The Russian Presidential Council):

1 - Number of Contract: M/08/85 **Date: 07/04/2000**
2 - Name of Company Buyer: Rosnefteimpex
3 - Nationality: Russian
4 - Quantity: (14) million barrels divided as follows:

(6) million barrels of Kirkuk crude oil FOB Ceyhan terminal
(8) million barrels of Basrah light crude oil FOB Al-Bakr terminal⁶⁶

The Minister of Oil approved Contract M/08/85 on July 8, 2000. Contract M/08/85 was sent to the U.N. for approval and was approved by the U.N. Oil Overseers on July 10, 2000.⁶⁷

With Contract M/08/85 fully approved, Bayoil entered into a separate contract with Rusnaftaimpex (BVI) Limited, a company located on Jersey in the Channel Islands. Under the terms of that contract, Rusnaftaimpex agreed to sell 8 million barrels of Basrah Light crude to Bayoil in exchange for a “premium” equal to an amount of 2¢ a barrel, to be transferred to a bank account designated by Rusnaftaimpex.⁶⁸ This contract was the first of three versions of the same contract, all of which are dated July 11, between Bayoil and, alternatively, Rusnaftaimpex and Rosnefteimpex. The final, executed version of the contract directed that the premium be paid to Rusnaftaimpex as per the terms of an addendum.⁶⁹ The addendum to this final contract, dated July 26, 2000, directed Bayoil to pay 24¢ a barrel into a bank account designated by Rusnaftaimpex -- 12¢ in advance and 12¢ after the completion of each lifting.⁷⁰

Prior to the execution of that addendum, on July 14, 2000, Bayoil directed its bank in Geneva to wire the first of several “premium” payments in connection with Contract M/08/85 to a bank account at Hellenic Bank Ltd. in Cyprus in favor of Haverhill.⁷¹ The first was a pre-payment of \$240,000, which amounts to 12¢ a barrel for the 2 million barrels that Bayoil was scheduled to lift in July. Bayoil performed its first lifting, a shipment of 1,833,963 barrels, on August 3, 2000 on the vessel *Licorne Pacifique*. Then, on August 25, 2000, Bayoil made its first post-lifting payment in an amount of \$212,151.12, which was based on the actual amount of oil lifted (1,833,963 barrels @ 12¢ a

⁶⁶ Letter from the Executive Director of SOMO to the Minister of Oil dated July 5, 2000 (emphasis added).

⁶⁷ U.N. Oil Overseers approval of Contract M/08/85 dated July 10, 2000.

⁶⁸ Contract between Bayoil and Rusnaftaimpex dated July 11, 2000 (unexecuted) (SNT 014953-955).

⁶⁹ Contract between Bayoil and Rusnaftaimpex dated July 11, 2000 (executed) (SNT 017014-017). Yet another version of this contract mirrors the terms of the other two versions, but names Bayoil and Rosnefteimpex as the parties and was executed by D.I. Kossarev as Deputy Director General of Rosnefteimpex (SNT 015622-624). It is unclear why there were multiple iterations of this contract.

⁷⁰ Addendum No. 1 to contract dated July 11, 2000 between Rusnaftaimpex and Bayoil (SNT 017013).

⁷¹ Wire transfer request from Bayoil to Credit Agricole Indosuez SA (Geneva) dated July 14, 2000 (SNT 015735).

barrel). That payment was made, not to Haverhill, but to Rusnaftaimpex in an account at United Bank of Switzerland AG in Geneva.⁷²

In total, Bayoil completed 4 shipments of oil under Contract M/08/85 and lifted a total of 8,009,014 barrels of Basrah Light crude.⁷³ Prior to each shipment, Bayoil made pre-payments in an amount equal to 12¢ per barrel of oil that Bayoil was scheduled to ship. For the last 3 shipments, Bayoil was invoiced by and made its pre-payments to Rusnaftaimpex instead of Haverhill.⁷⁴ Bayoil made all four of its post-lifting payments to Rusnaftaimpex as well.⁷⁵ In total, as detailed in the table below, Bayoil wired payments totaling \$1,922,163.36 to bank accounts in favor of Haverhill and Rusnaftaimpex in connection with Contract M/08/85:

Table 2: Bayoil Payments to Third Parties in connection with Contract M/08/85.

Shipment	Date of Lifting	Number of Barrels Lifted	Prepayment to Haverhill	Prepayments to Rusnaftaimpex	Post-Lifting Payments to Rusnaftaimpex	Total Payments to Third Parties
1	08/03/00	1,883,963	\$240,000.00	--	\$212,151.12	\$452,151.12
2	08/12/00	1,857,303	--	\$240,000.00	\$205,752.72	\$445,752.72
3	09/12/00	1,943,729	--	\$240,000.00	\$226,494.96	\$466,494.96
4	10/21/00	2,324,019	--	\$240,000.00	\$317,764.56	\$557,764.56
Total Payments⁷⁶ from Bayoil to Third Parties in Connection with Contract M/08/85: (8,009,014 barrels @ 24¢ a barrel)						\$1,922,163.36

Bayoil made all of these payments to bank accounts in favor of Haverhill and Rusnaftaimpex -- totaling \$1,922,163.36 -- despite the fact that neither entity had performed any discernable services in connection with Contract M/08/85.

Bayoil's internal accounting documents repeatedly refer to the payments to Haverhill and Rusnaftaimpex as "premiums" and "Price Premium Over O.S.P." (the official sales price).⁷⁷

⁷² Wire transfer request from Bayoil to Credit Agricole Indosuez SA (Geneva) dated August 25, 2000 (SNT 015706).

⁷³ SOMO invoice statements for Contract M/08/85.

⁷⁴ Invoices from Rusnaftaimpex to Bayoil for pre-shipment payments related to Contract M/08/85 (SNT 014950, 016308, 016998).

⁷⁵ Invoices from Rusnaftaimpex to Bayoil for post-shipment payments related to Contract M/08/85 (SNT 015708, 015053, 016286, 017115).

⁷⁶ Bayoil Transaction Detail By Account for *Licorne Pacifique* (B/L August 3, 2000), *Tina* (B/L August 12, 2000), *Berge Chief* (B/L September 12, 2000), and *Olympia Spirit* (B/L October 21, 2000).

⁷⁷ Wire transfer request from Bayoil to Banque Cantonale Vaudoise dated July 14, 2000 regarding pre-payment of \$240,000 to Haverhill (SNT 015735); Wire transfer request from Bayoil to Banque Cantonale Vaudoise dated August 2, 2000 regarding pre-payment of \$240,000 to Rusnaftaimpex (SNT 015050); *See also*, Bayoil's internal pricing tables for calculating the price-per-barrel wherein the 24¢ is calculated into the price as a "premium" (SNT 015704).

Significantly, Bayoil's ledgers generally list these payments under an entry titled "Commissions - Russia." Bayoil's ledgers related to Contract M/08/85 record these payments as follows:

**Bayoil Supply & Trading, Ltd.
Transaction Detail By Account
January 1995 through December 2003**

Commissions - Russia

Check 7/18/2000	HAVERHILL TRADING	...	-240,000.00
Check 9/1/2000	RUSNAFTAIMPEX	...	-212,151.12
Total Commissions - Russia			-452,151.12

* * *

Check 8/2/2000	RUSNAFTAIMPEX	...	-240,000.00
Check 9/11/2000	RUSNAFTAIMPEX	...	-205,752.72
Total Commissions - Russia			-445,752.72

* * *

Check 8/25/2000	RUSNAFTAIMPEX	...	-240,000.00
Check 10/11/2000	RUSNAFTAIMPEX	...	-226,494.96
Total Commissions - Russia			-466,494.96

* * *

Check 10/13/2000	RUSNAFTAIMPEX	...	-240,000.00
Total Commissions - Russia			-240,000.00

Agent Commissions

Check 11/20/2000	RUSNAFTAIMPEX	...	-317,764.56⁷⁸
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It is clear that these payments did not go into the Iraq Escrow Account at BNP Paribas for the benefit of the Iraqi people. What is less clear is where the money went once it was wired to bank accounts in Switzerland and Cyprus.

Reading the terms of the June 10, 2000 agency agreement between Bayoil and Haverhill and the subsequent July 11, 2000 agreement between Bayoil and Rusnaftaimpex *en toto*, Bayoil was obligated to compensate Rusnaftaimpex at a rate of 2¢ per barrel for acting as the purchasing agent for Contract M/08/85. As such, Rusnaftaimpex was entitled to \$160,180.28 (8,009,014 barrels x 2¢). After the deduction of the \$160,180.38 due to Rusnaftaimpex, \$1,761,983.08 remains unaccounted for. Based on SOMO's documents and the testimony of senior members of the former Hussein regime, the logical conclusion to be drawn is that the remaining funds inured to the benefit of the allocation holder.⁷⁹ If such is the case, the Subcommittee estimates that \$1,761,983.08 went to the benefit of Sergey Issakov on behalf of the Russian Presidential Council in connection with Contract M/08/85:

⁷⁸ See Bayoil Transaction Detail By Account for *Licorne Pacifique*, *Tina*, *Berge Chief*, and *Olympia Spirit*.

⁷⁹ Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, Senior Hussein Regime Official No. 1, April 14, 2005, and Senior Hussein Regime Official No. 2, April 20, 2005; U.S. Treasury Iraqi Financial Asset Team interviews of former regime officials, February 1, 2004 (#12) and January 27, 2004 (#15).

Table 3: Estimated Division of Bayoil's Payments Between Haverhill/Rusnaftaimpex and the Russian Presidential Council in connection with Contract M/08/85.

Shipment	Number of Barrels Lifted	Rate of Payment to Haverhill & Rusnaftaimpex	Payments to Haverhill & Rusnaftaimpex	Suspected Amount Paid to the Benefit of the Russian Presidential Council
1	1,883,963	2¢ a barrel	\$37,679.26	\$414,471.86
2	1,857,303	2¢ a barrel	\$37,146.06	\$408,606.66
3	1,943,729	2¢ a barrel	\$38,874.58	\$427,620.38
4	2,324,019	2¢ a barrel	\$46,480.38	\$511,284.18
Totals:			\$160,180.28	\$1,761,983.08⁸⁰

The suspected payment of \$1,761,983.08 to Mr. Issakov on behalf of the Russian Presidential Council under contract M/08/85 accounts for the 8,009,014 barrels lifted by Bayoil, and does not account for the 6 million barrels of Kirkuk crude also contracted for under Contract M/08/85. SOMO documents indicate that a total of 14,000,000 barrels were lifted under M/08/85.⁸¹ Therefore, depending on the terms of the deal struck between Rusnaftaimpex and whichever company lifted the Kirkuk oil, there were likely to have been substantial additional payments in favor of the Russian Presidential Council in excess of the \$1,761,983.08 resulting from payments made by Bayoil.

There is no evidence that any “surcharge” payments were made to the Hussein regime in connection with Contract M/08/85. Contract M/08/85 was executed prior to September 1, 2000 (the date that the Hussein regime first imposed “surcharges” on oil contracts). A possible explanation for the absence of any surcharge payments on Contract M/08/85 is found in a memorandum written by a SOMO official explaining the origin and initial implementation of the surcharge demand:

A decision was made in August 2000 to impose a surcharge of 10¢ per barrel for all markets (as of mid phase (8) and until the end of the phase) on the shipments that will be lifted as of September 1, 2000.

* * *

[S]ome of these parties declined to pay the surcharge in phase (8) claiming that the payment notification for the shipments lifted on September 1, 2000 came late, and that they had already sold the quantities allocated to them to other companies before they had been told to pay; therefore, they were unable to pay 10¢ per barrel.⁸²

Although two of the four Bayoil liftings occurred after September 1, 2000, there is no indication that any of Bayoil's payments to Haverhill and Rusnaftaimpex were in satisfaction of surcharge demands.

⁸⁰ This figure amounts to 22¢ per barrel on the 8,009,014 barrels lifted by Bayoil under Contract M/08/85.

⁸¹ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 2 titled “Quantities of Crude Oil Lifted by the Companies and Russian Parties during the Phases of the Memorandum of Understanding.”

⁸² SOMO Memorandum dated February 19, 2004, Attachment 4.

Finally, other SOMO documents indicate that no surcharge payments were made in connection with Contract M/08/85.⁸³

C. The Third Allocation (Phase 9: December 6, 2000 to July 3, 2001)

There was no approved list of allocations at the beginning of Phase 9, which commenced on December 6, 2000. This was due to the fact that the Hussein regime had begun to demand 10¢ per barrel “surcharges” on oil purchases lifted after September 1, 2000, and since many companies refused to pay, SOMO was instructed to sign contracts with any company willing to pay the surcharge.⁸⁴ Sergey Issakov was apparently willing to comply with the surcharge demand and he traveled to Iraq to sign a contract on behalf of Rosnefteimpex. Contract M/09/25⁸⁵ was executed in Baghdad on January 17, 2001 between Rosnefteimpex and SOMO and was signed by Mr. Issakov as “Adviser to General Director” of Rosnefteimpex.⁸⁶ Contract M/09/25 was approved by the U.N. Oil Overseers on January 18, 2001.⁸⁷

Mr. Issakov was personally involved in the negotiations between Rosnefteimpex and Bayoil in relation to Contract M/09/25, and specifically demanded that Bayoil pay high premiums as part of the deal:

To: Bayoil
Re: Shipment of Basrah Light crude in April-May-June
M/t <<Stavros>> B/L 3.04.01
M/t <<Mariner>> Laycan May 14th and about 2,000,000 bbls
loading in June (Subject agreement of SOMO)
Att: Mr. David Chalmer [sic], President

Dear Sirs,

Taking into account the relationships between our companies and also the fact that your company is one of the important Suppliers of crude oil to US and European Consumers, we would like to continue our collaboration. Subject agreement with Supplier we propose to you above quantities and any other quantities within this period. We consider that after last decision of OPEC to cut crude oil output, crude oil market improved and we have intention to cooperate with your company for promotion purposes of Iraqi oil to the market.

⁸³ *Id.* (excerpts relating to Contract M/08/85). In the row that lists the surcharge rate for Contract M/08/85, it states “what has been paid is higher than.” In no other part of Attachment 4 is such an entry made. The meaning of the notation is unknown.

⁸⁴ SOMO table titled “Crude Oil Allocations during Phase (9) of the Memorandum of Understanding;” Duelfer Report, p. 182.

⁸⁵ Contract between Rosnefteimpex and SOMO designated M/09/25 dated January 17, 2001.

⁸⁶ The original volume for Contract M/09/25 was 6 million barrels, but that amount was subsequently increased to 16.35 million barrels, of which 11.428 million barrels were ultimately lifted. SOMO memorandum from the Crude Oil First Marketing Department to the Financial Department dated May 14, 2001; SOMO chart titled “Crude Oil Purchases during Phase (9) of the Memorandum of Understanding.”

⁸⁷ U.N. Oil Overseers approval of Contract M/09/25 dated January 18, 2001.

Having in mind the above we would like to receive higher trading benefit after selling of crude oil on the market at the level of not less than USD 0.35 per each barrel. In case your agreement we are ready to conclude respective deal with your company.

We expect your answer.

Best regards,

S. Issakov⁸⁸

The fee arrangement between Bayoil, Rusnaftaimpex, and Haverhill (established in connection with Contract M/08/85) continued during Contract M/09/25, as referenced in an invoice relating to Bayoil's first lifting under the contract. On April 3, 2001, the vessel *Stavros G.L.* lifted 250,000 barrels of Basrah Light crude under Contract M/09/25.⁸⁹ In connection with that lifting, on April 25, 2001, Rusnaftaimpex invoiced Bayoil for \$87,500 (250,000 barrels at 35¢ a barrel) that was owed under the "Contract dated July 11, 2000, addendum No 2 dated 18 January 2001."⁹⁰ Tellingly, Rusnaftaimpex instructed Bayoil to pay the money into an account in favor of *Haverhill* and not into an account in its own favor, which is further evidence of a close association between the two entities. Bayoil made this first payment relating to Contract M/09/25 to a bank account in Haverhill's name at the Hellenic Bank Ltd. in Cyprus on May 2, 2001.⁹¹ For unknown reasons beginning with Contract M/09/25, Bayoil ceased to refer to these payments as "Commissions - Russia" in its ledgers, as it had done with the payments it made under Contract M/08/85 in the previous phase. Instead, Bayoil's ledgers list the payments to Haverhill as "Crude Purchases."⁹² Another departure from Contract M/08/85 was that Bayoil ceased to take note of these payments in its internal pricing worksheets. All references to "premiums" and "Price Premium Over" the official sales price are notably absent from Bayoil's internal documents relating to Contract M/09/25.

In total, Bayoil completed 4 shipments of oil under Contract M/09/25 and lifted a total of 6,271,688 barrels of Basrah Light crude.⁹³ As was the case with Bayoil's first shipment under Contract M/09/25, after each subsequent shipment Haverhill invoiced Bayoil for the "fee" that it was owed pursuant to the terms of the July 11, 2001 contract.⁹⁴ As detailed in the table below, Bayoil made payments totaling \$2,140,039.62 in connection with Contract M/09/25 to accounts in Haverhill's name at the Hellenic Bank:

⁸⁸ Facsimile from Rosnefteimpex to Bayoil dated April 20, 2001 (SNT 020928) (emphasis added).

⁸⁹ SOMO invoice statement for Contract M/09/25.

⁹⁰ Invoice from Rusnaftaimpex to Bayoil dated April 25, 2001 (SNT 021260). Rusnaftaimpex billed Bayoil an additional \$3,000 in this invoice for unknown reasons.

⁹¹ Wire transfer request from Bayoil to BNP Paribas (Suisse) SA (Geneva) dated May 2, 2001 (SNT 021259).

⁹² Bayoil Transaction Detail By Account for *Stavros G.L.* (B/L April 3, 2001), *Settebello* (B/L April 19, 2001), *Astro Beta* (B/L May 20, 2001), and *Olympia Spirit* (B/L July 13, 2001).

⁹³ SOMO invoice statements for Contract M/09/25.

⁹⁴ Invoices from Haverhill to Bayoil for payments related to Contract M/09/25 (SNT 019650, 020995, 022344).

Table 4: Bayoil Payments to Haverhill in connection with Contract M/09/25.

Shipment	Date of Lifting	Number of Barrels Lifted	Rate of Payment to Haverhill	Destination of Shipment	Payments to Haverhill
1	04/03/01	250,000	35¢ a barrel	North America	\$87,500.00
2	04/19/01	2,160,986	30¢ a barrel ⁹⁵	Europe	\$651,295.80
3	05/20/01	1,860,777	35¢ a barrel	North America	\$651,271.95
4	07/13/01	1,999,925	37.5¢ a barrel	North America	\$749,971.87
Total Payments⁹⁶ from Bayoil to Haverhill for in Connection with Contract M/09/25: (2,160,986 barrels @ 30¢ a barrel; 2,110,777 @ 35¢ a barrel; 1,999,925 @ 37.5¢ a barrel)					\$2,140,039.62

As is plainly evident from the table, the rate of payment to Haverhill was lower for the shipment that was bound for the European market. That difference corresponds to the fact that the Hussein regime charged a lower surcharge rate for shipments destined for the European market than for shipments destined for the North American market.

Unlike Contract M/08/85, the evidence indicates that surcharges were paid to the Hussein regime in connection with Contract M/09/25, and these surcharges were substantial. The liftings performed under Contract M/09/25 occurred during the period when the Hussein regime charged 25¢ a barrel for shipments destined for the European market and 30¢ a barrel for shipments destined for the North American market. All the available evidence indicates that the Russian Presidential Council/Rosnefteimpex/Haverhill paid the surcharges demanded in connection with Contract M/09/25. For instance, correspondence between Bayoil and Rosnefteimpex indicates that the price calculation for the shipment on the vessel *Stavros G.L.* included the surcharge amount: “This Contract or Agreement should cover ... m/t “Stavros” B/L 3.04.01 - 250 000 bbls of Basrah Light surcharge to OSP 0,35 - 0,40 \$/bbl.”⁹⁷ Additionally, in March 2001 Rosnefteimpex made a request to SOMO to extend the expiration date of Contract M/09/25 and to increase the quantity of oil under the contract in consideration for the surcharge payments that Rosnefteimpex had made. An internal SOMO memorandum detailed the request:

To: [His Excellency] the Executive Director
Re: Contract M/09/25 with Rosimpex [sic] Russian Company (The Presidential Council)

* * *

4 - Rosnefteimpex company requested to change the quantity of the contract to the following:

⁹⁵ The actual rate calculates to \$0.301388 per barrel.

⁹⁶ Bayoil Transaction Detail By Account for *Stavros G.L.* (B/L April 3, 2001), *Settebello* (B/L April 19, 2001), *Astro Beta* (B/L May 20, 2001), and *Olympia Spirit* (B/L July 13, 2001).

⁹⁷ Facsimile from Rosnefteimpex to Bayoil dated April 17, 2001 (SNT 020929-931).

<u>Basrah</u>	<u>Kirkuk</u>	<u>Total</u>
4	2	6

to be lifted in April/May 2001, and to extend the validity of the contract until 05/15/2001, taking into consideration that the company has settled both of the surcharge amounts due to our embassy in Moscow as per the telephone conversation with their representative in Baghdad.⁹⁸

Furthermore, SOMO's documents indicate that all of the surcharges due in connection with Contract M/09/25 were paid. In total, 14,431,154 barrels were lifted under Contract M/09/25, 6,271,688 of which were lifted by Bayoil.⁹⁹ A total of \$3,918,481.80 in surcharge payments was due to Iraq, all of which was paid.¹⁰⁰ Ipso facto, all of the surcharges that were owed in connection with Bayoil's liftings under the contract were also paid. The Subcommittee estimates that \$1,773,457.10 of Bayoil's payments into Haverhill's bank accounts at the Hellenic Bank was ultimately routed to the Hussein regime for the satisfaction of surcharges:

Table 5: Estimated Surcharge Payments Made in Connection with Bayoil's Shipments Under Contract M/09/25.

Shipment	Number of Barrels Lifted	Destination of Shipment	Rate of Surcharge	Surcharge Payments to Iraq
1	250,000	North America	30¢ a barrel	\$75,000.00
2	2,160,986	Europe	25¢ a barrel	\$540,246.50
3	1,860,777	North America	30¢ a barrel	\$558,233.10
4	1,999,925	North America	30¢ a barrel	\$599,977.50
Total Surcharge Payments from Bayoil Liftings Under Contract M/09/25:				\$1,773,457.10

The surcharge payments that were drawn from Bayoil's payments to Haverhill do not account for all of the surcharge payments made to Iraq in connection with Contract M/09/25. SOMO's documents reflect that a total of \$3,918,543 in surcharges were paid to Iraq under Contract M/09/25, which indicates that other unknown purchasing agents and/or oil companies made surcharge payments amounting to \$2,145,085.90 for their portion of the oil lifted under the contract.¹⁰¹

Once the surcharge payments have been taken into account, the question remains as to what happened to the remainder of the payments made by Bayoil to Haverhill in connection with Contract M/09/25. Under the terms of the prior contracts between Bayoil and Rusnaftaimpex dated July 11,

⁹⁸ Memorandum from the Head of Crude Oil First Marketing Department to the Executive Director of SOMO dated March 24, 2001 (emphasis added).

⁹⁹ SOMO invoice statements for Contract M/09/25.

¹⁰⁰ SOMO Memorandum dated February 19, 2004, Attachment 4 (excerpts relating to Contract M/09/25). It appears as though the parties involved overpaid by a *de minimis* amount, \$61.20.

¹⁰¹ *Id.*

2000,¹⁰² Bayoil was obligated to compensate Rusnaftaimpex at a rate of 2¢ per barrel for being the purchasing agent. As such, Rusnaftaimpex was owed \$125,433.76 (6,271,688 barrels @ 2¢ a barrel). Once Rusnaftaimpex's fees have been deducted from the amount paid by Bayoil to Haverhill, there remains a balance of \$241,148.76. Based on SOMO's documents and the testimony of senior members of the former Hussein regime, the logical conclusion to be drawn is that those remaining funds were paid to the allocation holder.¹⁰³ If that is the case, the Subcommittee estimates that \$241,148.76 went to the benefit of Sergey Issakov on behalf of the Russian Presidential Council in connection with Contract M/09/25:

Table 6: Estimated Division of Bayoil's Payments Between Iraq, Rusnaftaimpex, and the Russian Presidential Council in connection with Contract M/09/25.

Shipment	Number of Barrels Lifted	Surcharge Payments to Iraq (25 or 30¢ a barrel)	Payments to Rusnaftaimpex (2¢ a barrel)	Suspected Payments for the Benefit of the Russian Presidential Council
1	250,000	\$75,000.00	\$5,000.00	\$7,500.00
2	2,160,986	\$540,246.50	\$43,219.72	\$67,829.58
3	1,860,777	\$558,233.10	\$37,215.54	\$55,823.31
4	1,999,925	\$599,977.50	\$39,998.50	\$109,995.87
Totals:	6,271,688	\$1,773,457.10	\$125,433.76	\$241,148.76¹⁰⁴

The suspected payment of \$241,148.76 to Sergey Issakov on behalf of the Russian Presidential Council under Contract M/09/25 accounts only for such payments made on the 6,271,688 barrels lifted by Bayoil. SOMO documents, however, indicate that a total of 14,431,154 barrels were lifted under Contract M/09/25, and therefore what is not accounted for in the above table is any money that may have been paid to the Russian Presidential Council in connection with the remaining 5,156,312 barrels that were lifted under Contract M/09/25. Depending on the terms of the deal struck between Rusnaftaimpex and the company or companies that lifted the oil, there may have been additional payments in favor of the Russian Presidential Council in excess of the \$241,148.76 resulting from payments made by Bayoil.

D. The Fourth Allocation (Phase 10: July 4, 2001 to November 30, 2001)

The Hussein regime allocated 16 million barrels to the Russian Presidential Council in Phase 10.¹⁰⁵ On July 14, 2001 the Hussein regime executed Contract M/10/15 with Rosnefteimpex for 17

¹⁰² Contract between Bayoil and Rusnaftaimpex dated July 11, 2000 (SNT 014953-955); Contract between Bayoil and Rusnaftaimpex dated July 11, 2000 (executed) (SNT 017014-017).

¹⁰³ Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, Senior Hussein Regime Official No. 1, April 14, 2005, and Senior Hussein Regime Official No. 2, April 20, 2005; U.S. Treasury Iraqi Financial Asset Team interviews of former regime officials, February 1, 2004 (#12) and January 27, 2004 (#15).

¹⁰⁴ This figure amounts to 3.845¢ per barrel for the 6,271,688 barrels lifted by Bayoil under Contract M/09/25.

million barrels -- 10 million barrels of Basrah Light crude and 7 million barrels of Kirkuk crude.¹⁰⁶ SOMO documents indicate that the extra 1 million barrels included in Contract M/10/15 was for the benefit of the Russian ambassador to Iraq, Vladimir Titorenko.¹⁰⁷ Other SOMO documents confirm that Sergey Issakov was the point of contact for the allocation.¹⁰⁸ The contract for 17 million barrels was executed in Baghdad by “Adviser to General Director” Sergey Issakov on behalf of Rosnefteimpex.¹⁰⁹ Contract M/10/15 was approved by the U.N. Oil Overseers on July 24, 2001.¹¹⁰

Certain correspondence connected with Contract M/10/15 provides additional evidence that there is no discernable difference as to who controls the various entities conducting these transactions. For instance, on August 21, 2001 Yuri Poukhov of Rosnefteimpex delivered an invoice to Bayoil on Haverhill’s letterhead for the premium payment owed in connection with a shipment of oil lifted under Contract M/10/15:

**HAVERHILL TRADING LIMITED
23, ARISTIDOU STR., PIREAS, GREECE**

To: Bayoil Supply and Trading Limited

Att: Mrs. Jean Johnston

CC: Mr. Ludmil Dionissiev

Herebelow we are sending to you final invoices No. 03/17/08 for m/t <<Magdelaine>> B/L 17.08.01 and No. 04/17/08 for m/t <<Stena Convoy>> B/L 21.08.2001.

Best regards,

Y. Poukhov¹¹¹

The memorandum forwarded an invoice charging Bayoil \$683,501.25 for the *Stena Convoy* shipment.¹¹² Prior to that memorandum, all such invoices and other correspondence from Haverhill had been delivered by Marios Kontemeniotis, the purported “director” of Haverhill. In response to the letter from Mr. Poukhov, on September 13, 2001, Jean Johnston of Bayoil wrote a memorandum to Rosnefteimpex to the attention of *Mr. Kontemeniotis*, although he supposedly had no connection to the Russian oil trading company:

TO: Rosnefteimpex, Moscow

ATTN: Mr. Marios Kontemeniotis

FAX: 7095 979-6071

CC: Mr. Y. Poukhov

¹⁰⁵ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 185.

¹⁰⁶ Contract between Rosnefteimpex and SOMO designated M/10/15 dated July 14, 2001.

¹⁰⁷ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 2.

¹⁰⁸ Letter from the Crude Oil First Marketing Department to the Financial Department dated July 18, 2001.

¹⁰⁹ Contract between Rosnefteimpex and SOMO designated M/10/15 dated July 14, 2001, at p. 10.

¹¹⁰ U.N. Oil Overseers approval of Contract M/10/15 dated July 24, 2001.

¹¹¹ Letter from Haverhill to Bayoil dated August 21, 2001 (SNT 023706).

¹¹² Haverhill invoice to Bayoil dated August 17, 2001 (SNT 023712).

FROM: Jean Johnston

* * *

Dear Sirs:

With reference to your faxed invoices of today, please be advised following payments have been made:

Magdelaine (Your invoice no. 03/17/08) US \$716,933.25 - value August 20, 2001

Stena Convoy (Your invoice no. 04/17/08) US \$683,501.25 - value Aug. 22, 2001

* * *

Best regards,

Jean Johnston¹¹³

Other correspondence illustrates that Haverhill did not even prepare the invoices sent under its own letterhead. For example, a letter from Rosnefteimpex to Bayoil indicates that Rosnefteimpex, and not Haverhill, prepared an invoice to Bayoil in connection with Contract M/10/15:

To: Bayoil

Re: M/t <<Hellespont Capitol>> B/L 02.11.2001

Att: Mrs. Jean Johnston

Date: 26.11.01

Dear Jean!

We are preparing invoice for above cargo. As soon as price differences are clear we will present respective invoice.

* * *

Many thanks.

Best regards,

Y. Poukhov¹¹⁴

These documents are additional evidence that Rosnefteimpex, Haverhill, and Rusnaftaimpex were not independent corporate entities conducting oil transactions at arm's length, but were related and acting in concert to facilitate the payment of premiums on oil purchases under the Oil-for-Food Program, and in many instances forwarding payments to the Hussein regime in satisfaction of "surcharges."

In total, Bayoil completed 8 shipments of oil under Contract M/10/15 and lifted a total of 12,828,688 barrels. After each shipment, Haverhill invoiced Bayoil for the amount that it was owed.¹¹⁵ For Contract M/10/15, Bayoil paid a premium of 37.5¢ per barrel for the first 6 shipments, 39.5¢ per barrel for the seventh shipment, and 42.5¢ per barrel for the eighth and final shipment. In total, as

¹¹³ Memorandum from Bayoil to Rosnefteimpex dated September 13, 2001 (SNT 023693).

¹¹⁴ Facsimile from Rosnefteimpex to Bayoil dated November 26, 2001 (SNT 025304).

¹¹⁵ Invoices from Haverhill to Bayoil for payments related to Contract M/10/15 (SNT 023554, 023698, 023700, 024006, 022658, 024141, 024624, 025301).

detailed in the table below, Bayoil made payments totaling \$4,953,020.64 to Haverhill’s account at Hellenic Bank in Nicosia in connection with Contract M/10/15:

Table 7: Bayoil Payments to Haverhill in connection with Contract M/10/15.

Shipment	Date of Lifting	Number of Barrels Lifted	Rate of Payment to Haverhill	Destination of Shipment	Payments to Haverhill
1	08/01/01	200,000	37.5¢ a barrel	North America	\$75,000.00
2	08/15/01	1,911,822	37.5¢ a barrel	North America	\$716,933.25
3	08/21/01	1,822,670	37.5¢ a barrel	North America	\$683,501.25
4	08/26/01	150,000	37.5¢ a barrel	North America	\$56,250.00
5	09/08/01	2,356,360	37.5¢ a barrel	North America	\$883,635.00
6	09/15/01	1,990,489	37.5¢ a barrel	North America	\$746,433.38
7	10/09/01	2,586,824	39.5¢ a barrel	North America	\$1,021,795.48
8	11/02/01	1,810,523	42.5¢ a barrel	North America	\$769,472.28
Total Payments¹¹⁶ from Bayoil to Haverhill in Connection with Contract M/10/15: (8,431,341 barrels @ 37.5¢ a barrel; 2,586,824 @ 39.5¢ a barrel; 1,810,523 @ 42.5¢ a barrel)					\$4,953,020.64

The Subcommittee currently has no explanation for the spike in the rate of premiums for the final two shipments on October 9, 2001 (39.5¢ a barrel) and November 2, 2001 (42.5¢ a barrel). All of Bayoil’s shipments under Contract M/10/15 were destined for the North American market and therefore carried a surcharge rate of 30¢ per barrel (see Table 8, below). As such, there was no need to raise the price per barrel to account for any variance in the surcharge rate.

Contract M/10/15 was executed and performed during the surcharge period, and therefore resulted in multiple payments to the Hussein regime. A letter from the Executive Director of SOMO to the Minister of Oil noted that the surcharge payments due under Contract M/10/15 were “Payable in one month from the date of loading.”¹¹⁷ Over 16 million barrels were lifted under Contract M/10/15, 12,828,688 of which were lifted by Bayoil.¹¹⁸ SOMO’s documents indicate that all of the surcharges due in connection with Contract M/10/15 were paid.¹¹⁹ Ipso facto, all of the surcharges that were owed

¹¹⁶ Bayoil Transaction Detail By Account for *Stena Companion* (B/L August 1, 2001), *Magdelaine* (B/L August 15, 2001), *Stena Convoy* (B/L August 21, 2001), *Settebello* (B/L August 26, 2001), *Sahara* (B/L September 8, 2001), *Noto* (B/L September 15, 2001), *Olympia Spirit* (B/L October 9, 2001), and *Hellespont Capitol* (B/L November 2, 2001).

¹¹⁷ Letter from the Executive Director of SOMO to the Minister of Oil dated July 15, 2001.

¹¹⁸ SOMO invoice statements for Contract M/10/15 (indicating that 16,818,559 barrels were lifted); SOMO Memorandum dated February 19, 2004, Attachment 4.

in connection with Bayoil's liftings under the contract were also paid. The Subcommittee estimates that \$3,848,606.40 of Bayoil's payments to Haverhill's account at the Hellenic Bank were forwarded to the Hussein regime for the satisfaction of surcharges:

Table 8: Estimated Surcharge Payments Made in Connection with Bayoil's Shipments Under Contract M/10/15.

Shipment	Number of Barrels Lifted	Destination of Shipment	Rate of Surcharge	Surcharge Payments to Iraq
1	200,000	North America	30¢ a barrel	\$60,000.00
2	1,911,822	North America	30¢ a barrel	\$573,546.60
3	1,822,670	North America	30¢ a barrel	\$546,801.00
4	150,000	North America	30¢ a barrel	\$45,000.00
5	2,356,360	North America	30¢ a barrel	\$706,908.00
6	1,990,489	North America	30¢ a barrel	\$597,146.70
7	2,586,824	North America	30¢ a barrel	\$776,047.20
8	1,810,523	North America	30¢ a barrel	\$543,156.90
Total Surcharge Payments from Bayoil Liftings Under Contract M/10/15:				\$3,848,606.40

The surcharge payments that resulted from Bayoil's payments to Haverhill do not account for all of the surcharge payments made to Iraq in connection with Contract M/10/15. SOMO's documents reflect that approximately \$5 million in surcharges were paid to Iraq under Contract M/10/15, which indicates that other oil companies and/or purchasing agents made surcharge payments amounting to over \$1 million for their portion of the oil lifted under the contract.¹²⁰

Once the surcharge payments have been deducted, the question remains as to what happened to the remainder of the payments made by Bayoil into Haverhill's bank account in connection with Contract M/10/15. Under the terms of prior contracts, Bayoil was to compensate the purchasing agent at a rate of 2¢ per barrel.¹²¹ As such, the purchasing agent for Contract M/10/15 (either Rosnefteimpex or Rusnaftaimpex) was entitled to keep \$256,573.76 (12,828,688 barrels @ 2¢ a barrel). Once those fees have been deducted, there remains a balance of \$847,840.48. Based on SOMO's documents and

¹¹⁹ SOMO Memorandum dated February 19, 2004, Attachment 4 (excerpts relating to Contract M/10/15), indicating that \$154.15, a *de minimis* amount, was still owed under Contract M/10/15.

¹²⁰ SOMO Memorandum dated February 19, 2004, Attachment 4.

¹²¹ Each of the 8 invoices sent by Haverhill to Bayoil in connection with Contract M/10/15 referred to a contract dated July 19, 2001 and various addenda to that contract. The Subcommittee has not yet obtained a copy of that contract or any addenda. If the arrangement between the parties held true to form, then the July 19, 2001 contract and its addenda would have adhered to the terms of prior contracts entered into by Bayoil and Rusnaftaimpex in connection with Contract M/08/85 and Contract M/09/25. For the purposes of this Report, we assume that the rate of compensation for the purchasing agent remained at 2¢ per barrel (SNT 014953-955; SNT 017014-017).

the testimony of senior members of the former Hussein regime, the logical conclusion to be drawn is that the remaining funds went to the allocation holder.¹²² If such is the case, the Subcommittee therefore estimates that \$847,840.48 went to the benefit of Sergey Issakov on behalf of the Russian Presidential Council in connection with Contract M/10/15:

Table 9: Estimated Division of Bayoil's Payments Between Iraq, Rosnefteimpex/Rusnaftaimpex, and the Russian Presidential Council in connection with Contract M/10/15.

Shipment	Number of Barrels Lifted	Surcharge Payments to Iraq (30¢ a barrel)	Bayoil Payments to Purchasing Agent (2¢ a barrel)	Suspected Payments for the Benefit of the Russian Presidential Council
1	200,000	\$60,000.00	\$4,000.00	\$11,000.00
2	1,911,822	\$573,546.60	\$38,236.44	\$105,150.21
3	1,822,670	\$546,801.00	\$36,453.40	\$100,246.85
4	150,000	\$45,000.00	\$3,000.00	\$8,250.00
5	2,356,360	\$706,908.00	\$47,127.20	\$129,599.80
6	1,990,489	\$597,146.70	\$39,809.78	\$109,476.90
7	2,586,824	\$776,047.20	\$51,736.48	\$194,011.80
8	1,810,523	\$543,156.90	\$36,210.46	\$190,104.92
Totals:	12,828,688	\$3,848,606.40	\$256,573.76	\$847,840.48¹²³

The suspected payment of \$847,840.48 to Sergey Issakov on behalf of the Russian Presidential Council in connection with Contract M/10/15 accounts only for the payments made in connection with the 12,828,688 barrels lifted by Bayoil. SOMO documents indicate that over 16 million barrels were lifted under that contract¹²⁴ and therefore what is not accounted for here is any money paid to the allocation holder in connection with the over 3 million barrels that were lifted under Contract M/10/15 by companies other than Bayoil. Depending on the terms of the deal struck between Rosnefteimpex and the company that lifted that oil, there would likely have been additional payments in favor of the Russian Presidential Council in excess of the \$847,840.48 resulting from payments made by Bayoil.

¹²² Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, Senior Hussein Regime Official No. 1, April 14, 2005, and Senior Hussein Regime Official No. 2, April 20, 2005; U.S. Treasury Iraqi Financial Asset Team interviews of former regime officials, February 1, 2004 (#12) and January 27, 2004 (#15).

¹²³ This figure amounts to approximately 6.6¢ per barrel on the 12,828,688 barrels lifted by Bayoil under Contract M/10/15.

¹²⁴ SOMO invoice statements for Contract M/10/15.

E. The Fifth Allocation (Phase 11: December 1, 2001 to May 29, 2002)

The Russian Presidential Council, through Sergey Issakov, was awarded an allocation of 16 million barrels by the Hussein regime during Phase 11.¹²⁵ This allocation resulted in Contract M/11/05 between the Russian Engineering Company and SOMO. Contract M/11/05 was executed in Baghdad on December 26, 2001 for 16 million barrels of oil -- 9 million barrels of Basrah Light crude and 7 million barrels of Kirkuk crude.¹²⁶ Sergey Issakov executed the contract as chairman of the Russian Engineering Company.¹²⁷ SOMO documents indicate that, like Contract M/10/15, an extra 1 million barrels was included in Contract M/10/15 for the benefit of the Russian ambassador to Iraq, Vladimir Titorenko.¹²⁸ Contract M/11/05 was approved by the U.N. Oil Overseers on December 31, 2001.¹²⁹

Unlike many of the contracts detailed in this Report, Bayoil did not perform any liftings in connection with Contract M/11/05 and therefore the Subcommittee has limited documentation as to what amounts, if any, were paid to the benefit of the allocation holder. What is known is that the oil contracted for under Contract M/11/05 was indeed lifted in 10 shipments between January and July 2002, and that approximately 15 million barrels were lifted.¹³⁰

F. The Sixth and Seventh Allocations (Phase 12: May 30, 2002 to December 4, 2002)

During Phase 12 the Hussein regime made two allocations for the benefit of the Russian Presidential Council. The first was to Sergey Issakov, an allocation that resulted in Contract M/12/69, and the second was to the head of the Russian Presidential Council, Alexander Voloshin, which resulted in Contract M/12/109.

1. The Sixth Allocation

The Russian Presidential Council, through Sergey Issakov, was awarded an allocation of 12.5 million barrels by the Hussein regime during Phase 12.¹³¹ This allocation resulted in Contract M/12/69 between the Russian Engineering Company and SOMO. Contract M/12/69 was executed in Baghdad on July 20, 2002 and was originally for 1 million barrels of oil, but was subsequently amended and increased to a total of 12.5 million barrels -- 6.5 million barrels of Basrah Light crude and 6 million barrels of Kirkuk crude.¹³² Sergey Issakov executed the contract as chairman of the Russian Engineering Company.¹³³

As with Contract M/11/05, Bayoil did not perform any liftings in connection with Contract M/12/69 and therefore the Subcommittee has limited documentation as to what amounts, if any, were paid to the benefit of allocation holder. What is known is that the oil contracted for under Contract

¹²⁵ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 188.

¹²⁶ Contract between the Russian Engineering Company and SOMO designated M/11/05 dated December 26, 2001.

¹²⁷ *Id.*, at p. 10.

¹²⁸ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 2; Duelfer Report, p. 188.

¹²⁹ U.N. Oil Overseers approval of Contract M/11/05 dated December 31, 2001.

¹³⁰ SOMO invoice statements for Contract M/11/05; Duelfer Report, p. 188.

¹³¹ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 193.

¹³² U.N. Oil Overseers approval to amendment to Contract M/12/69 dated August 5, 2002.

¹³³ Contract between the Russian Engineering Company and SOMO designated M/12/69 at p. 10.

For your review and approval, please.¹⁴⁰

The Minister of Oil approved Contract M/12/109 on September 28.¹⁴¹ Another internal SOMO document noted that the contract was “on behalf of the Russian Presidential Council,” but that the point of contact was Chertioukov Arkady of Impexoil.¹⁴² With Contract M/12/109 in place, Mr. Tumanov of Impexoil made the following offer to Bayoil on October 2, 2002:

BAYOIL

October 2nd, 2002

Attn: MR. LUDMIL DIONISSIEV

Ref: PHASE 12 Contract with SOMO for the procurement of Iraqi Oil

Dear Mr. Dionissiev,

Further to our discussions we would like to offer the following quantities of Iraqi crude oil allocated to our company under Contract M/12/109 UN Program.

2'000'000 barrels of Basrah Light Oil ex Mina Al Bakr

1'000'000 barrels of Kirkuk Crude Oil ex Ceyhan

The period of lifting - October 2002 at your options

Price - OSP + US Dollars 0.06

Letter of Credit is at your expense.

We would very much appreciate your comments and are always open for discussions.

Your prompt reply will be highly appreciated

Sincerely yours,

S. Tumanov

Director for Iraqi Projects¹⁴³

Bayoil responded to Impexoil's letter on the same day and accepted the offer to purchase 2 million barrels of Basrah Light crude and to pay 6¢ per barrel over the official sale price.¹⁴⁴ Bayoil requested that Impexoil extend its offer on the Kirkuk crude until early the next week.

Thereafter, on October 4, 2002, Impexoil and Bayoil entered into a contract for the purchase and sale of 2 million barrels of Basrah Light crude wherein Bayoil would pay a “commission” of 6¢ per barrel.¹⁴⁵ Bayoil completed the first of its three liftings under Contract M/12/109 on October 16, 2002 in an amount of 1,340,073 barrels. Impexoil invoiced Bayoil on October 30, 2002 for \$80,404.38 (1,340,073 barrels @ 6¢ a barrel) and directed that the payment be made into an account at the Cyprus

¹⁴⁰ Memorandum from the Acting General Director of SOMO to the Minister of Oil dated September 26, 2002 (emphasis added).

¹⁴¹ *Id.*

¹⁴² Memorandum from the Oil Marketing First Department to Shipping & Quantities Department dated September 26, 2002.

¹⁴³ Letter from Impexoil to Bayoil dated October 2, 2002 (emphasis added) (SNT 027864).

¹⁴⁴ Letter from Bayoil to Impexoil dated October 2, 2002 (SNT 027858).

¹⁴⁵ “Agreement No M/12/01/B” between Impexoil and Bayoil dated October 4, 2002 (SNT 027842-845).

Popular Bank Ltd. in Nicosia, Cyprus.¹⁴⁶ Impexoil invoiced Bayoil for payments due after the remaining two shipments as well.¹⁴⁷ In total, as detailed in the table below, Bayoil made payments totaling \$182,267.94 into Impexoil's account at the Cyprus Popular Bank in connection with Contract M/12/109:

Table 10: Bayoil Payments to Impexoil in connection with Contract M/12/109.

Shipment	Date of Lifting	Number of Barrels Lifted	Rate of Payment to Impexoil	Payments to Impexoil
1	10/16/02	1,340,073	6¢ a barrel	\$80,404.38
2	12/02/02	660,000	6¢ a barrel	\$39,600.00
3	12/18/02	1,037,726	6¢ a barrel	\$62,263.56
Total Payments¹⁴⁸ from Bayoil to Impexoil in Connection with Contract M/12/109: (3,037,799 barrels @ 6¢ a barrel)				\$182,267.94

There is no evidence indicating that any surcharges were paid to the Hussein regime in connection with Contract M/12/109.¹⁴⁹ This is due to the fact that such surcharges had been cancelled for liftings that occurred after September 1, 2002¹⁵⁰ and all of the liftings performed under Contract M/12/109 occurred after that date.

The ultimate destination of the \$182,267.94 paid by Bayoil into Impexoil's account at the Cyprus Popular Bank is not definitively known. Unlike Bayoil's prior fee arrangements with Rusnaftaimpex/Haverhill wherein Bayoil agreed to pay the purchasing agent 2¢ per barrel, the Subcommittee does not have an analogous contract outlining any such arrangement between Bayoil and Impexoil, and therefore does not have direct evidence relating to the division of the premium payments between the purchasing agent and the allocation holder. Based upon the testimony of senior members of the former Hussein regime, however, the purpose of awarding oil allocations was for the financial benefit of the allocation holder.¹⁵¹ The logical conclusion is that some or all of the \$182,267.94 went to the allocation holder -- Alexander Voloshin, as head of the Russian Presidential Council. If such is the case and on the assumption that Impexoil was compensated at the same rate as

¹⁴⁶ E-mail from Impexoil to Bayoil dated October 30, 2002 (SNT 027937).

¹⁴⁷ Invoices from Impexoil to Bayoil for payments related to Contract M/12/109 (SNT 028481, 028771). The latter invoice erroneously attributes the payment due as in connection with Contract M/13/33.

¹⁴⁸ Bayoil Transaction Detail By Account for *Tina* (B/L October 16, 2002), *Marine Atlantic* (B/L December 2, 2002), and *Dorset* (B/L December 18, 2002).

¹⁴⁹ SOMO Memorandum dated February 19, 2004, Attachment 4 (excerpt), indicating that no entry was recorded for Contract M/12/109.

¹⁵⁰ Memorandum from the Crude Oil Marketing Second Department to the Financial Department dated September 17, 2002; SOMO Memorandum dated February 19, 2004, Attachment 4.

¹⁵¹ Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, Senior Hussein Regime Official No. 1, April 14, 2005, and Senior Hussein Regime Official No. 2, April 20, 2005; U.S. Treasury Iraqi Financial Asset Team interviews of former regime officials, February 1, 2004 (#12) and January 27, 2004 (#15).

Haverhill and Rusnaftaimpex (2¢ a barrel), the Subcommittee estimates that \$121,511.96 went to the benefit of Alexander Voloshin in connection with Contract M/12/109:

Table 11: Estimated Division of Bayoil’s Payments Between Impexoil and the Russian Presidential Council in connection with Contract M/12/109.

Shipment	Number of Barrels Lifted	Assumed Rate of Payment to Impexoil	Suspected Payments to Impexoil	Suspected Payments to the Russian Presidential Council
1	1,340,073	2¢ a barrel	\$26,801.46	\$53,602.92
2	660,000	2¢ a barrel	\$13,200.00	\$26,400
3	1,037,726	2¢ a barrel	\$20,754.52	\$41,509.04
Totals:			\$60,755.98	\$121,511.96¹⁵²

G. The Eighth and Ninth Allocations (Phase 13: December 5, 2002 to June 3, 2003)

During Phase 13 the Hussein regime made two allocations for the benefit of the Russian Presidential Council. The first was to the “Head of the Russian Presidential Council,” Alexander Voloshin, which resulted in Contract M/13/33. The second was to Sergey Issakov, which did not ultimately result in a contract.

1. The Eighth Allocation

For the last phase of the Oil-for-Food Program, a total of 2 million barrels were allocated to the “Head of the Russian Presidential Council,” Mr. Voloshin.¹⁵³ On December 17, 2002, Contract M/13/33 was executed between Impexoil and SOMO for a quantity of 350,000 barrels of Basrah Light crude.¹⁵⁴ The contract was forwarded to the U.N. Oil Overseers for approval on December 19, 2002 and was approved on the same day.¹⁵⁵ On December 25, 2002, an internal SOMO memorandum indicated that the “party benefiting” from the oil allocation was the “Head of the Russian Presidential Council”:

To: The Financial Department
From: Crude Oil Marketing First Department **Date: 12/25/02**
RE: Contract No. M/13/33 Signed with Impexoil LLC Company

On 12/12/02, we signed a contract with the aforesaid company to supply it with quantity of crude oil as per the following terms:

¹⁵² This figure amounts to 4¢ per barrel on the 3,037,799 barrels lifted by Bayoil under Contract M/12/109.

¹⁵³ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 197 (listing the allocation at 1.35 million barrels).

¹⁵⁴ Contract between Impexoil and SOMO designated M/13/33 dated December 17, 2002.

¹⁵⁵ Memorandum from Impexoil to the U.N. Oil Overseers dated December 19, 2002; U.N. approval of contract dated December 19, 2002.

1 - Number of Contract: M/13/33
2 - Date: 12/12/2002
3 - Name of Company: Impexoil LLC.
4 - Nationality: Russian Nationality of Allocation Holder: Russian
5 - Party Benefiting from Allocation: Head of the Russian Presidential Council
6 - Quantity & Quality: (2) million barrels of Basrah light FOB Al-Bakr terminal, including (1.650) million barrels that were lifted as per contract M/12/109

* * *

Please be informed and act accordingly.¹⁵⁶

Notably, this letter makes reference to a prior contract -- M/12/109 -- that was executed in connection with a separate allocation given to Mr. Voloshin during the previous phase.

Another reference to Mr. Voloshin was made a few days later, when the volume of oil was increased for Contract M/13/33. On January 2, 2003 the Director General of SOMO sent a memorandum to Impexoil to the attention of "Mr. A. Voloshin." The memorandum approved an amendment to the original contract to allow an additional 1 million barrels to be lifted:

**REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
SOMO**

DATE: 2/1/2003

TO: IMPEXOIL LLC - MOSCOW - RUSSIA

FAX: 7095 9562615

ATTN: MR. A. VOLOSHIN

RE: CRUDE CONTRACT M/13/33 DATED 17.12.2002

WE ARE PLEASED TO ATTACH HEREWITH ADDENDUM NO. (1) TO THE AFOREMENTIONED CONTRACT. IT IS TO BE SIGNED BY MR. VLADIMIR EFROS (DIRECTOR) AND TO BE FAXED BACK TO SOMO AND TO THE U.N. OIL OVERSEERS FOR APPROVAL.¹⁵⁷

Addendum number one to Contract M/13/33 was executed by Impexoil and the volume of oil contracted for under M/13/33 was increased to a total of 1,350,000 barrels. Impexoil forwarded the amendment to the U.N. Oil Overseers on January 8, 2003 and the amendment was approved on the same day.¹⁵⁸ Bayoil lifted the original contract amount of 350,000 barrels on January 10 aboard the *Hellespont Grand*.¹⁵⁹

¹⁵⁶ Memorandum from the Crude Oil Marketing First Department to the Financial Department dated December 25, 2002 (emphasis added).

¹⁵⁷ Memorandum from SOMO to Impexoil dated January 2, 2003 (emphasis added).

¹⁵⁸ Memorandum from Impexoil to the U.N. Oil Overseers dated January 8, 2003; U.N. Oil Overseers approval of amendment dated January 8, 2003.

¹⁵⁹ SOMO invoice statement for Contract M/13/33.

On January 22 Impexoil invoiced Bayoil for \$17,500 (the equivalent of only 5¢ per barrel on 350,000 barrels),¹⁶⁰ which Bayoil paid the next day.¹⁶¹ The ultimate destination of the \$17,500 paid by Bayoil to Impexoil is not definitively known. Unlike the arrangement between Bayoil and Rusnaftaimpex wherein Bayoil agreed to pay Rusnaftaimpex 2¢ per barrel, the Subcommittee does not have an analogous contract outlining any such arrangement between Bayoil and Impexoil, and therefore does not have direct evidence relating to the division of the premium payment between the allocation holder and the purchasing agent. Based upon the testimony of senior members of the former Hussein regime, however, the purpose of awarding oil allocations was for the financial benefit of the allocation holder.¹⁶² The logical conclusion is that some or all of the \$17,500 went to the allocation holder. If such is the case and on the assumption that Impexoil was compensated at the same rate as Haverhill and Rusnaftaimpex (2¢ a barrel), the Subcommittee estimates that \$10,500 went to the benefit of Alexander Voloshin in connection with Contract M/13/33:

Table 12: Estimated Division of Bayoil's Payments Between Impexoil and the Russian Presidential Council in connection with Contract M/13/33.

Shipment	Number of Barrels Lifted	Assumed Rate of Payment to Impexoil	Suspected Payment to Impexoil	Suspected Payment to the Russian Presidential Council
1	350,000	2¢ a barrel	\$7,000.00	\$10,500.00
Totals:			\$7,000.00	\$10,500.00 ¹⁶³

The suspected payment of \$10,500 to Mr. Voloshin as head of the Russian Presidential Council under Contract M/13/33 accounts only for payments made on the 350,000 barrels lifted by Bayoil. SOMO documents, however, indicate that approximately 900,000 barrels were lifted under Contract M/13/33,¹⁶⁴ and therefore what is not accounted for here is any money that may have been paid to Mr. Voloshin in connection with the remaining 550,000 barrels that were lifted under Contract M/13/33. Depending on the terms of the deal struck between Impexoil the oil company that lifted the remaining 550,000 barrels, there may have been additional payments to Mr. Voloshin in excess of the \$10,500 resulting from payments made by Bayoil.

There is no evidence indicating that any surcharges were paid to the Hussein regime in connection with Contract M/13/33.¹⁶⁵ This is due to the fact that such surcharges had been cancelled

¹⁶⁰ Invoice from Impexoil to Bayoil dated January 22, 2003 (SNT 029027).

¹⁶¹ Bayoil Transaction Detail By Account for *Hellespont Grand* (B/L January 10, 2003).

¹⁶² Subcommittee interviews of Deputy Prime Minister Tariq Aziz, April 21, 2005, Vice President Taha Yasin Ramadan, April 18, 2005, Senior Hussein Regime Official No. 1, April 14, 2005, and Senior Hussein Regime Official No. 2, April 20, 2005; U.S. Treasury Iraqi Financial Asset Team interviews of former regime officials, February 1, 2004 (#12) and January 27, 2004 (#15).

¹⁶³ This figure is the equivalent of 5¢ per barrel on the 350,000 barrels lifted by Bayoil under Contract M/13/33.

¹⁶⁴ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 2.

¹⁶⁵ SOMO Memorandum dated February 19, 2004, Attachment 4 (there are no surcharges recorded for any contract entered into during Phase 13).

for all liftings that occurred after September 1, 2002¹⁶⁶ and the single lifting performed under Contract M/13/33 occurred after that date.

2. The Ninth Allocation

According to SOMO documents, Sergey Issakov was granted an allocation of 5 million barrels in Phase 13 on behalf of the Russian Presidential Council.¹⁶⁷ There is no evidence, however, that a contract was executed in furtherance of that allocation.

III. FINDINGS AND CONCLUSIONS

Based on the foregoing, the Subcommittee estimates that a total of \$2,982,984.28 was ultimately paid to the benefit of the Russian Presidential Council, through either Sergey Issakov or the former head of the Council, Alexander Voloshin. The Subcommittee also estimates that \$5,622,063.50 was paid to the Hussein regime in the form of surcharges resulting from these transactions. Finally, the Subcommittee concludes that the nominal purchasing agents involved in the transactions detailed herein were paid \$609,943.78. This estimate encompasses only those profits derived from transactions where Bayoil lifted oil, namely the transactions related to Contracts M/08/85, M/09/25, M/10/15, M/12/109, and M/13/33:

Table 13: Estimated Division of Bayoil's Payments Between Iraq, the Designated Purchasing Agents, and the Russian Presidential Council in connection with Contracts M/08/85, M/09/25, M/10/15, M/12/109, and M/13/33.

Contract	Number of Barrels Lifted	Surcharge Payments to Iraq (25-30¢ a barrel)	Bayoil Payments to Purchasing Agent (2¢ a barrel)	Suspected Payments for the Benefit of the Russian Presidential Council
M/08/85	8,009,014	---	\$160,180.28	\$1,761,983.08
M/09/25	6,271,688	\$1,773,457.10	\$125,433.76	\$241,148.76
M/10/15	12,828,688	\$3,848,606.40	\$256,573.76	\$847,840.48
M/12/109	3,037,799	---	\$60,755.98	\$121,511.96
M/13/33	350,000	---	\$7,000.00	\$10,500.00
Totals:	30,497,189	\$5,622,063.50	\$609,943.78	\$2,982,984.28



¹⁶⁶ Memorandum from the Crude Oil Marketing Second Department to the Financial Department dated September 17, 2002; SOMO Memorandum dated February 19, 2004, Attachment 4.

¹⁶⁷ SOMO Memorandum dated February 19, 2004, Attachment 5, Table 1; Duelfer Report, p. 200.