Mikhail Khodorkovsky:

"Admitting guilt of non-existent crimes is unacceptable for me"

At the new trial of Mikhail Khodorkovsky and Platon Lebedev, the prosecutors are just about to move on to the questioning of witnesses. Last week they were still reading the indictment aloud. Now they are accusing Khodorkovsky and Lebedev of stealing the shares of the Tomskneft company and of the actual oil belonging to YUKOS's subsidiaries, as well as of the legalization of what had been stolen. In essence, then, what is being spoken of is the transfer pricing that YUKOS and other companies made active use of in the 90s and in connection with which they had already tried Khodorkovsky five years ago – on a charge of evasion from the payment of taxes. The trial will go on for a long time still. Khodorkovsky had wanted to appear in court with response testimony on all four points of the indictment and to clarify what is being spoken of, but the court did not let him do this. Newsweek is publishing Khodorkovsky's testimony in abridged form (see pg. 24). Simultaneously, Khodorkovsky answered Newsweek's questions, passed on to him through lawyers. In this interview, he recounts that he does not intend to ask about pardon and that the new YUKOS case is being moved along not by Vladimir Putin with Igor Sechin, but by second-tier bureaucrats.

Do you not consider that then, in 2003, you committed a strategic error, having incorrectly assessed the risks for the company and for yourself personally?

Of course, behind bars I have thought much about whether I could have acted differently. Perhaps I was too naïve in 2003, I believed that certain democratic and legal institutions had already become entrenched in the country. As you can see, I was wrong. But to act differently, to leave, to abandon Platon, to betray other people – I could not do that. If I could relive this stage again, I would probably act the same. As concerns the company, from the very start of this story I tried with all my strength to move YUKOS, the labor collective, out of the line of fire. You know that I left all posts in the company rather quickly, declared not once that I was ready to part with [my] shares to retire the tax claims. Nothing helped. And could not help already. It seems to me that in that situation YUKOS already had no chance of surviving as a unitary company. It was just too tasty a morsel of property; we had created too successful and prosperous a company.

What feelings are you experiencing towards Vladimir Putin and Igor Sechin? Do you consider that the "YUKOS affair" – is a personal affair [implemented] by their hands?

I consider that the "YUKOS affair" was created and continues to go on thanks to very many persons. Moreover, now the case is being moved along for the most part by a bureaucracy that is not even of the upper echelon. Are Putin and Sechin complicit in the YUKOS affair? Yes, at the initial stage of the affair, the political will was formed specifically by these people. Today – I don't know. Right now, it is important for me to defend my good name and to achieve a just court decision. In any case, you can not bring back the past.

Do you have complaints against Roman Abramovich and other large businessmen in connection with the first YUKOS case?

Everyone determines for himself the acceptable level of risk, just like the limits of what is permissible in business and in life in general.

Do you see a difference between Vladimir Putin and Dmitry Medvedev? In what is it?

Many commentators and experts run to extremes. According to them it turns out that either Dmitry Medvedev is nothing more than a puppet in Putin's hands, or the incumbent President who wants nothing more than to get rid of the influence of the prime minister. I think that Dmitry Medvedev, unconditionally, differs from Vladimir Putin, but at the same time I have no doubts that the current President is completely loyal to the previous one. Will he be able to conduct his own policy, will he deem this necessary for himself? Questions to which I do not have answers for now.

Can you imagine a situation in which you submit a plea for pardon?

For now, all my efforts are focused on attaining a lawful and objective decision in that case which is now being examined in the Khamovnichesky Court. Admitting guilt of non-existent crimes is unacceptable for me. As to the rest, time will tell.

In the past year, Vladimir Putin has sharply criticized individual large businessmen and their companies on more than one occasion. Do you see – especially in connection with the problems in the economy – the preconditions for a new "YUKOS affair" today?

New analogues of the "YUKOS affair" already exist. Just not on the same scale. Such cases could happen with a company and a businessman of any level, not only with those that enter into the Top 500 in the world ranking. The practice of artificially turning civil or commercial disputes into the materials of a criminal case, tested out on us, has created dozens and hundreds of new YUKOS cases of a smaller scale.

Yet another consequence of our first case became the loss of confidence in the court. Few doubt now that a court can adopt a non-legal decision under the influence of political pressure. And how then to distinguish lawful claims from unlawful ones? In the last five years, every time tax

or other criminal claims arise against business, the press announces about the start of a new YUKOS affair. And one can understand you. Based on the experience of YUKOS, you know that in Russia, criminal prosecution does not at all signify an aspiration to render justice. How to put an end to this practice? Perhaps a comprehensible and objective decision with respect to our second case could improve the reputation of the judicial system.

What are the first steps that need to be undertaken today in the political sphere?

To conduct a real, full-fledged judicial reform, about which I have already spoken on numerous occasions with concrete proposals.

The prosecution is counting on Basmanny justice, interpreting any law to the advantage of the bosses. It can not explain how what it is charging [me] with was committed, what its evidence proves

A noticeable part of private assets because of the crisis may pass into the hands of the state. How legally appropriate and, from the economic point of view, promising is this process?

I have an extremely critical attitude towards the quality of state management in Russia in general and in industry in particular. The consequences of the expansion of this inefficient sector are sad: rising unit costs, falling labor productivity, non-transparency and corruption.

Why did they not let you give testimony in court? In what is the sense and objective of this testimony?

The prosecution is counting on Basmanny justice, interpreting any document, any law to the advantage of the bosses. But the prosecution itself can not explain how what it is charging [me] with was committed, what its evidence proves.

The prosecution says: "The victims themselves shipped all the oil to the refineries and for export to purchasers". Then where do we get [the idea] that the oil got lost? Did the purchasers complain? No. So where did the oil go? It came to those purchasers to whom it had been shipped? Yes. Then where was it stolen?

And the profit from realization? The prosecution says that YUKOS got $15.8 bln in profit from the realization of oil, distributed $2.6 bln as dividends. The victim had a profit from the stolen oil? How is that? Have you ever heard of anything like that?

What do you think, that the prosecutors and the judge understand nothing at all? They understand perfectly well. The only chance for the prosecutors – is to tie the trial up in knots with their blabbering, and then force the judge to sign some drivel. Tell me, in such a situation, what do they need my clarifications for? They simply fear them, like they fear any live word from this trial.

You speak of the headlong growth of YUKOS's indicators, impossible without the proceeds from the supposedly stolen oil. But did not

YUKOS, according to the prosecution theory, "steal" this oil from subsidiaries?

No. Herein lies the absurdity of the charge. They are accusing me, Platon Lebedev and several other people of having embezzled the oil. And if we had stolen this oil, then YUKOS could not have had any receipts, let alone a profit. After all, oil – is the only source of income of an oil company. And YUKOS since 2001 – was the 100 percent owner of the shares of the subsidiaries, until this the principal company (owner of a controlling block), *i.e.* any dispute it may have had with the subsidiaries or their shareholders, if there had been one (in actuality there was none), – was exclusively civil (Art. 105 CivC RF [Civil Code of the Russian Federation]). Besides that, the subsidiaries too had headlong growth of production and development: Yuganskneftegas by a factor of 2 times, Samaraneftegas by a factor of 2 times, Tomskneft by a factor of 1.5 times.

Competitive trading in oil between the subdivisions of a vertically integrated [oil] company VIOC was impossible. Is it possible today?

No. For now there is no free market in oil inside Russia. Its presence demands surplus transport capacity, which does not exist in the country. And besides, it is too expensive to maintain such capacity. We are not the USA, after all, it is far to the port and consumers, thousands of kilometers by land. It is precisely for this reason that widespread trade within holdings at transfer prices is no violation of the law, despite the persistent and artificially maintained stereotype.

In the government there lies a draft of a law regulating the rules of transfer price formation. Why they are adopting it only now, and is it capable of improving tax regulation in Russia?

Talk about this has been going on for more than ten years. And it is not a fact that this law will be adopted, and if it is, then it is unknown in what form and with what consequences for the economy and tax receipts into the budget. I think that the legislative introduction of the concept of a single taxpayer, which we have also been talking about since 1999, is much more rational. That is when a VIOC is regarded as a single whole for taxation purposes.

They are charging you with the theft and laundering of shares of subsidiary companies of VNK. In essence, what was taking place was a REPO system, widespread on the stock market. Will a guilty verdict with respect to this episode create a dangerous precedent - for example, for a small-scale speculator who has pledged shares belonging to him with his broker?

This is an absurd charge with an expired statute of limitations. To base one's future steps on references to such a precedent, if we understand this term in its own juridical meaning, is laughable. Lawlessness is not in need of this. What is frightening is the very fact of juridical lawlessness.

N

“The charges that have not been brought are just as absurd as the ones that have been”

Newsweek publishes the testimony of Mikhail Khodorkovsky with which they did not allow him to appear in court

The new Mikhail Khodorkovsky and Platon Lebedev case is built on four episodes. The first: theft by way of embezzlement of all the oil produced in the years 1998-2003 by subsidiary joint-stock companies of OAO NK YUKOS – OAO Samaraneftegas, OAO Yuganskneftegas and OAO Tomskneft VNK, in all for a sum of more than 892.4 bln rubles. The second: legalization of a part of these funds in the years 1998-2004. The third: theft of the shares of subsidiary companies of OAO VNK – Tomskneft VNK and others. The fourth: legalization of these shares. Newsweek is publishing in abridged form Mikhail Khodorkovsky’s testimony with respect to the main, “oil”, item of the indictment.

THEFT OF OIL

I have been accused of the theft of oil, therefore I am not going to sidetrack by discussing the circumstances associated with the transfer of rights of ownership to oil. This is an entirely different route of “movement”, moreover one of the movement of papers (documents), and not of oil, with the embezzlement (that is the factual seizure) of which I am being charged. I will speak later about this, inasmuch as various slanderous inferences are present in the bill of indictment. But for now – only about that with which they have charged me, that is about the oil itself.

On the whole, I am in agreement with the prosecution assertion that the oil was shipped to consumers directly. Indeed, in relation to more than 90% of the oil shipped, the producer, acting by proxy on behalf of YUKOS, directly indicated the address of the final recipient in the order to Transneft for transportation. Usually this was some concrete oil refinery (see figure 1).

Why does “directly” mean “with the knowledge of”? It is obvious that in shipping oil to a concrete refinery, the executive body of the producer knew to which refinery. The board of directors of the producer, getting the very same summaries as Mintop [the Ministry of Fuel] and the CSU [Central Statistical Administration], also knew. The general meeting of shareholders received this information at the annual meeting.

“Bypassing” the board of directors the executive body can act for one quarter, “bypassing” the general meet-

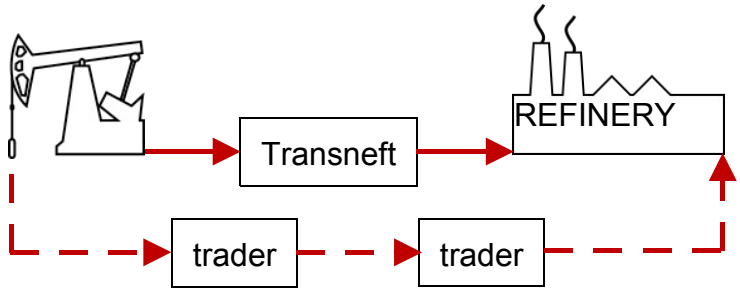
FIGURE 1

bill of indictment:

OIL WAS SHIPPED TO THE CONSUMER "DIRECTLY"

I AM AWARE OF THIS:

(simplified diagram for the majority of shipments)



"DIRECTLY" – means **"WITH THE KNOWLEDGE OF"**, through the TRANSNEFT system

"WAS SHIPPED DIRECTLY" – means by the will of the management bodies

The method of formation of the will for **"DIRECT SHIPMENT"** – outside the bounds of the court examination

ing – one year. It is known to me personally that boards of directors were conducted [*sic*] with approximately such a periodicity, and general meetings – with no lesser periodicity, until YUKOS in 2001 became the sole shareholder. Moreover I assert: it is known to me that both the board of directors and the general meeting of shareholders knew all the principal final recipients of the oil both from presentations and from reports in the open press, and even – in part – from the name of the company YUKOS (Yuganskneftegas-Kuibyshevorgsyntez).

About the method of the formation of the will of the executive bodies of the enterprises and the decisions of the general meeting I will speak later, as this lies outside the scope of the article of the CrimC RF [Criminal Code of the Russian Federation] that has been brought against me, and, consequently, the scope of the judicial examination as well.

I shall return to the charge that has been brought of the embezzlement (seizure) of coil. When and if the oil truly was seized or converted, it was known to me where and how this was established. In YUKOS, as in any other company, there were incidents of criminal and non-criminal "seizure" of oil and/or its "conversion".

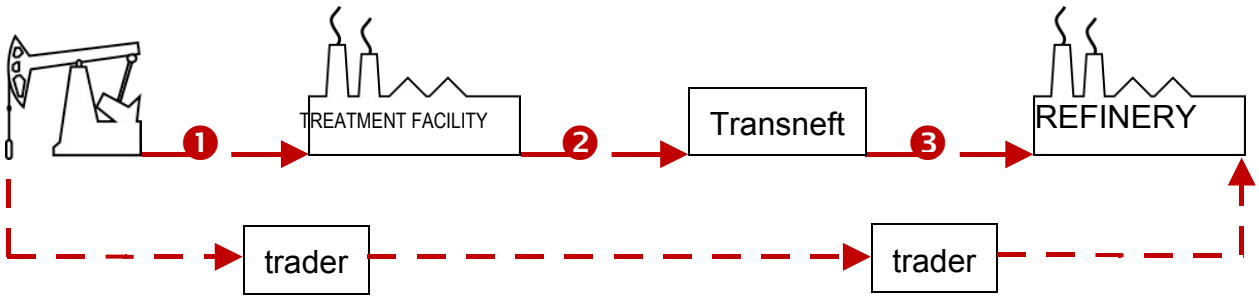
FIGURE 2

IF OIL INDEED DISAPPEARED – HOW CAN THIS BE DETERMINED?

I AM AWARE OF THIS:

If meters ❶, ❷, ❸ are in proper order – by comparing their readings

If the meter readings have been falsified – by an audit



Did the prosecution declare about a discrepancy in the meter readings? **NO!**

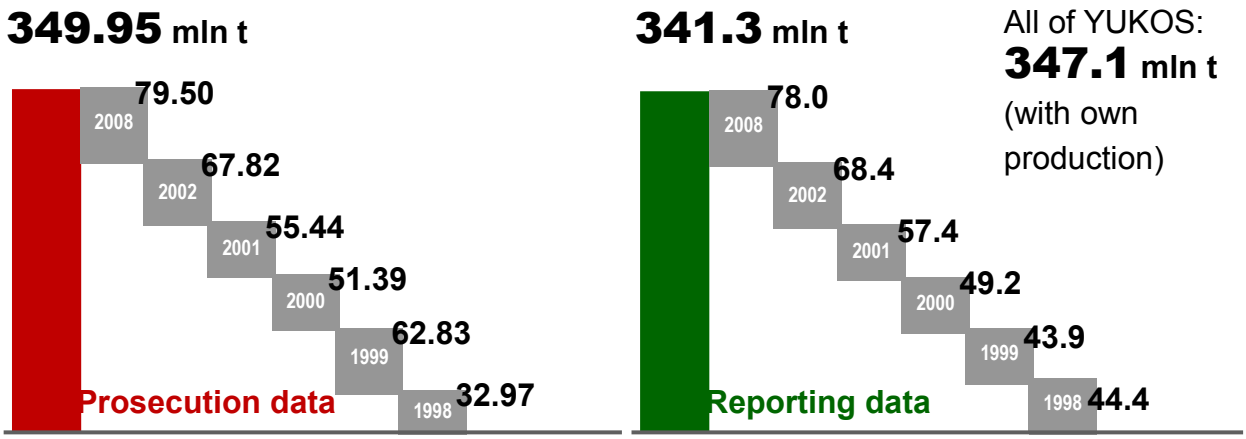
Did the prosecution declare about a falsification of the meter readings? **NO!**

The fact of the disappearance of oil has not only not been established, **BUT NOT PROVEN!**

A SHOCKING OBVIOUSNESS: THERE IS NO DISAPPEARANCE OF OIL!

As much as was produced – so much was shipped by the producer to the consumer

As much as was shipped to the consumer – so much was received by the consumer (less technological losses)



Consistent with the data of the YUKOS website, quarterly reporting, reports at general meetings of shareholders, the data of Transneft, RZhD [Russian Railroads] and consumers

ON TAX OPTIMIZATION

Tax optimization, as a lawful objective of any company, was present during the determination of trading schemes.

YUKOS's subsidiary production companies sold all the oil produced to trading companies likewise entering into the YUKOS perimeter of consolidation. Realization went by purchase-sale agreements, as a rule, at the wellhead, which is where the transfer of the rights of ownership to the oil in the composition of the wellhead fluid took place.

Such an organization of trade allowed avoiding unlawful arrests of oil by fabricated contractor agreements (which had been the practice in the years 1996-1999). The arrested oil was taken away at metering stations by way of pumping into tanks (vessels) or changing the shipment particulars with subsequent transfer for realization to local gangsters, who simply never paid for it, driving enterprises into a debt hole.

Irrespective of the place of transfer of the rights of ownership, the transaction price included the cost of treating the produced wellhead fluid to marketable-oil grade. This summary price is what then became the base for taxation.

Tax savings took place on account of the choice of organization – a purchaser from a region that granted tax benefits.

Physically, oil is never delivered to a trader organization, which can be located in Moscow or another convenient region (world practice – Geneva, New York, London etc.). YUKOS's practice did not differ in any way from the generally accepted and generally known one.

The conditions for the registration of traders, and the legal mutual relations with them (through options and outsourcing agreements), were established based on the recommendations of the PricewaterhouseCoopers company, in order to comply with the rules for consolidation under US GAAP, as well as the requirements of Art. 105 CivC RF, but, under the judicial practice of the treatment of the TaxC RF [Tax Code of the Russian Federation] existing then, the conditions of a transaction could not be subject to administrative review for the objectives of taxation. The given judicial practice was not simply specially reviewed retroactively for the plundering of YUKOS, but went even further in the YUKOS case, having found these operations companies (the traders) to be "YUKOS itself", which allowed increasing the amount of the tax claims by seven-ten times.

The current charge asserts the opposite: these subdivisions were not YUKOS and even did not act in its interests – they acted in the interests of Khodorkovsky, covering up theft of oil being implemented in a way unknown to science. Then this means that YUKOS was a victim shareholder, and not a beneficiary, and all the more so not the owner of the stolen oil.

FIGURE 3

the charge that was not brought:

"THE GENERAL MEETING OF THE SUBSIDIARY COMPANIES IN FEBRUARY–MARCH OF 1999 ADOPTED A DECISION UNDER THE INFLUENCE OF DECEIT ABOUT THE PRICE ETC."

BUT:

YUKOS voted the majority of the shares
at the meetings of the subsidiary companies

Deceit is not needed for the owner of YUKOS
and does not affect anything

the charge that was not brought:
“THE GENERAL MEETING IN FEBRUARY–MARCH OF 1999 WAS CONDUCTED WITH VIOLATION OF PROCEDURE”

BUT:

There exist “other” opinions of jurists about “proper” procedure

The decisions of the general meetings were never contested by anybody

Deadline for contesting – 6 months (article 43 FZ [Federal Law] On Joint-Stock Companies)

The decisions were confirmed on numerous occasions subsequently (article 183 CivC FZ)

the charge that was not brought:
“AGREEMENTS FOR THE PURCHASE-SALE OF RIGHTS OF OWNERSHIP TO THE OIL WERE ENTERED INTO UNDER THE INFLUENCE OF DECEIT ABOUT THE PRICE ETC.”

BUT:

The agreements were entered into upon the decision of a general meeting

The results of the transactions are confirmed by the decisions of general meetings

Deceit of its representatives is not needed by an owner and does not affect anything

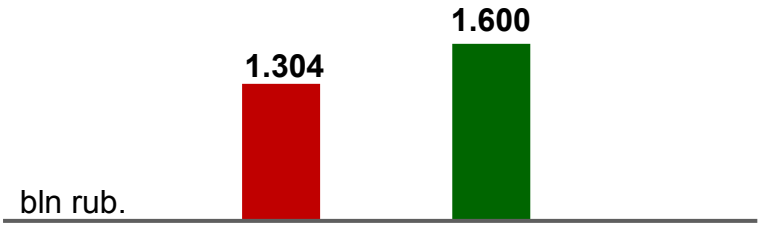
Prices and principal consumers – publicly accessible information

the charge that was not brought:

"THE RECEIPTS FROM THE SALE OF OIL WERE STOLEN"

BUT:

The "theoretical" receipts of the prosecution are lower than YUKOS's reported receipts



PARADOXICAL CONCLUSIONS OF THE PROSECUTION

From 1998 through 2001 the company was developing without expenses and capital investments

From 2001 through 2003 – without capital investments, but with expenses

IN ALL "WITHOUT CAPITAL INVESTMENTS" THE COMPANY FROM 1998 THROUGH 2003:

Doubled production and refining

Increased reserves by a factor of **1.5**

Increased assets (bought more) by a factor of **2.5**

ILLOGICAL!

"Seizures" of oil took place:

- by way of unlawful tie-ins;
- by way of unlawful loading of tanks and boilers;
- during ecological incidents (leaks).

"Conversion" of oil without seizure took place during the unlawful writing off of residue oil actually found in the storage facilities of our commission agents, usually with reference to ecological incidents and evaporation (reports were drawn up).

It is known to me that to seize oil other than with the indicated methods – loading and tie-in, is impossible due to the physical properties of the item: this is a fluid.

It is known to me that to convert oil without seizure (*i.e.* to conceal its presence in the system or storage tanks from the executive bodies) in quantities more than daily production is impossible due to the absence of the corresponding free storage facilities. And it is certainly

impossible to "convert" the corresponding quantity of oil "without seizure", "in secret" from the board of directors (a quarterly volume) or the shareholders' meeting (an annual volume), for the very same reason – absence of storage facilities.

Now let us return to seizure. I leave aside such a method as uncovering "pseudo-nobody's" oil beyond the confines of the "system" (the pipeline system). It is obvious that an ownerless 350 mln t of oil were not uncovered for the same reason yet again – there is no place to store them even in the "system", and as concerns beyond its confines – so much the more, plus the prosecution does not assert this (see figure 2).

About the charge that has been brought under Art. 160 (4) CrimC RF of the theft of oil as such – [this is] all.

Let us speak about the charges that haven't been brought. This is – assertions contained in the bill of indictment in the Art. 160 (4) CrimC RF section, but not entering into its disposition. In essence, this is – assertions plain and simple influencing the court and society, undermining my reputation, from which I can not defend myself in this trial, inasmuch as they fall outside the scope of the judicial examination (see figure 3).

I think that a simple conclusion would be more logical: the charges, the assertions that have not been brought are just as absurd as the ones that have been.

Literally two words about the rest of the charges that have been brought.

LAUNDERING OF OIL, RECEIPTS, PROFIT

Not stopping one more time on the absence of the fact of the disappearance of the oil, I want to declare that I can not understand the sense of the term "laundering" in relation to oil. Oil, as is known to me for certain, is transported first through the pipelines of the production enterprise, and then – almost exclusively – through the pipelines of the Transneft company to the consumer.

The term "laundering" (legalization) – this is concealment of the source of origin. But, as is known to me for certain, both in the production pipelines of the producer, and in the Transneft system, the origin of the raw material is precisely identified and indicated in routing telegrams, customs declarations etc. Therefore, concealment of the source of the raw material is knowingly impossible. Likewise it is known to me for certain that all the receipts from the realization of oil and oil products were accounted in the consolidated balance sheet of the company.

The source of the receipts of the oil company, indicated in the consolidated report, is obvious, and the charge of intent to conceal it is knowingly absurd: such an intent is impossible to have. Where else does an oil company get the receipts indicated in the report from if not from the realization of oil and oil products? Profit from realization is likewise indicated in the public report, as are the directions of its use.

I also can hardly be suspected of intent to conceal the source of profit. I personally annually gave an account of it in Gosnalogsluzhba [the State Tax Service] (specifically about the consolidated profit), before shareholders, the board of directors, the mass information media, before the expert community, published on a website.

I think it may be of interest for the court to get a systemic picture of the YUKOS oil company.

Of course, this does not have direct bearing on the delusional charge against me of the theft of all the oil or of the shares of subsidiary subdivisions of the company, but, inasmuch as the

prosecution considers all 150 000 YUKOS employees part of a dimensionless organized group, then it will be interesting for the court to learn how it, the group (or the VIOC) was organized and what it was engaged in.

I bring attention right from the start: I am going to say "I decided", although in actuality decisions were adopted by authorized bodies and persons, but I, as the majority shareholder and chairman of the executive committee of the board of directors, knew about these decisions (before or after their adoption) and approved them. Otherwise I would have attained their repeal. This concerns both decisions of general meetings and large agreements, transactions, acquisitions, policies, procedures etc.

I personally bore responsibility before the shareholders for any losses exceeding summarily 10% of the receipts for the year, including thefts. From 1 to 10% - members of the management board responsible for the corresponding directions. Below 1% – the managers and employees of the subdivisions. Now the prosecution is talking about the theft of 100% of the oil – this is definitely my question. Therefore I will show YUKOS from my "management floor".

1. The YUKOS company was acquired in a legal way. Its acquisition was never challenged by anybody.
2. The system of the vertical integration of YUKOS was set by the state during the founding of the company in the years 1992-1993, and not by a mythical organized group in 1997-1998.
3. I formalized through organizational-executive documentation the business practice of intra-corporate turnover of oil at transfer prices created by the state.
4. The intra-corporate prices established by YUKOS for its subsidiary enterprises were comparable with other producers' prices in the same regions, at the same time and for the same operations in analogous volumes.
5. Competitive trade between subdivisions of Russian VIOCs was technologically and economically impossible.
6. Management of the YUKOS company and its subdivisions was implemented by authorized bodies: the general meeting of shareholders, the board of directors, the executive body. Unconfirmed decisions of these bodies as of 2003 are absent!
7. Tax optimization, as a lawful objective of any company, was present during determination of trading schemes.
8. Trading schemes and prices, the profit of the company were accessible to shareholders, bodies of state and society. Alignment of the interests of all shareholders was secured by the program of consolidation, realized from 1999 through 2001.
9. The oil produced by the company, and the oil products manufactured from it, were found at the disposal of authorized representatives of the company and, in accordance with a Minfin [Ministry of Finance] instruction, were reflected on the balance sheet in the form of production expenditures.
10. All receipts received by the company from the realization of oil and oil products to the final consumer at a market price entered into the disposal of the company (in the person of the board of directors and the executive body). It was reflected in the public consolidated report (balance sheet).

11. The company's receipts for oil and oil products, incomes from the placement of temporarily free monetary funds, less customary expenses, were indicated in the consolidated reporting as profit.
12. All the company's profit entered into the disposal of the company board of directors and, in the corresponding part, of general meetings of the shareholders of subdivisions (a specific [feature] of Russian legislation). Expenditures from profit were implemented in the interests of all shareholders upon the decision of authorized bodies of the company. **N**

ON TRANSFER PRICES

I, having become the manager of the YUKOS group in 1996, formalized and codified with new documents the existing business practice of intra-corporate turnover of oil at transfer prices.

Having transferred to work at YUKOS in 1996 as deputy for economics, I discovered that the heavy financial situation of the company was brought about by the fact that 30% of the oil produced was not paid for at all, the rest of the oil was paid for in an untimely manner and/or by barter. As a result – an absence of financial discipline, huge wage, tax and deliveries arrears. More than $2 bln.

My research showed that the production enterprises do not have and never did have their own marketing structures or trading subdivisions, as well as subdivisions for logistics, refining, customs clearance, international finances. Realization goes for the greater part through YUKOS, exactly as had been envisioned in the government decree. To a lesser degree – through other intermediaries, who do not pay or who pay with a 6-9-month delay (which, in consideration of bank rates and inflation, reduced actual receipts by 50-70%) and by barter.

Direct talks with the heads of the production subdivisions uncovered that over in their regions they are found under criminal pressure and are incapable of engaging in normal marketing themselves. Incapable psychologically – they fear for their own life and health and that of those close to them, as well as technologically – no experience, people, structures.

The experience of Gazprom was studied by me and a decision adopted on entering into general agreements for the realization of all the oil (and not like before – the principal part) to YUKOS or its specialized marketing subdivisions. The agreements were entered into in 1996. The claims of the anti-monopoly service against these agreements, which, in my view, were initiated by venally interested persons, were consistently rejected by the commercial courts.

Such a lawful practice of the realization of output is characteristic not only of YUKOS and Gazprom, but of all the other Russian VIOCs as well.

In such a manner, from the end of 1996 through the end of 2003, all the oil produced by YUKOS production subsidiaries was realized only and exclusively to YUKOS or its marketing subsidiaries.

From the year 2000 onwards, at the request of a part of the governors, open bidding took place for monthly volumes of oil. This bidding bore a voluntary (for YUKOS) character and served exclusively as a demonstration of "goodwill", inasmuch as they knowingly did not have a chance at success, since free refining, marketing and transportation capacity was absent in the country.

Each VIOC had greater opportunities in production than in marketing. "Independent" buyers could absorb 2-5% of monthly volumes, since the "free market" bore an 80% corruptional character, associated with the resale of "unaccounted for" quotas for export.

Pursuant to the model law on pipeline transport, all quotas were divided among producers in proportion to production. There should not have been free quotas. But they did exist for one-off special permissions, issued to small firms, or there was gray-market export in general.

Large companies had a surplus of their oil, but did not have the opportunity to "fool around" with gray-market schemes due to serious control. Small ones – did "fool around", but did not have the oil. They bought it from the large ones at high prices.