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Regarding the meeting in MinTrans of Russia of 23.10.2001 on the construction of a new Black Sea commercial port in Tuapse region of Krasnodar Territory

Addendum to the Letter of YACONTO LLC out. № 1-11031 from 31.10.2001, inc. № K-21/12471 from 31.10.2001

To the Minister of Transport of RUSSIA**S.O. FRANK****Dear Sergey Ottovich!**

At the suggestion of the Assistant First Deputy Minister of Transport of Russia V.V. Ruksha we provide you with more detailed information about the meeting held on 23.10.2001 in the Ministry of Transport on the construction of a new Black Sea commercial port (BSCP) in the Tuapse region of Krasnodar Territory proposed by YACONTO LLC in its Program of 12.09.2000.

The meeting was conducted by N.I. Khvoschinsky as a representative of the Ministry of Transport of Russia and a General Director of the General Directorate of the government client. From the very beginning he declared his negative attitude to the terms of presentation of the YACONTO Program for the construction of BSCP to the Ministry of Transport of Russia, even though he has not even seen it yet. Instead of discussing the entrusted topic on the merits, he started schooling us that first we need to refine the Program to the stage of a technical design (spending considerable time and money with no warranty of any kind), and only then have it discussed in the Ministry of Transport. As a result, we had to make some sharp comments to N. Khvoschinsky to make this ministerial activist begin his consideration of the Program and listen to the report of YACONTO prepared for this meeting.

After the participants have listened to our Report, N. Khvoschinsky once again tried to reject the Program under various pretexts. He made groundless statements that the country has shown no economic growth in the recent years; that Russian ports are loaded only at half their capacity, so the construction of a new port does not make sense and we can only talk about the reconstruction and expansion of the existing ports of Novorossiysk and Tuapse; that he as a “professional and a specialist” knows very well that no increase in traffic can be expected in the country until 2010.

The Chief Engineer of SRPDI MM «Soyuzmorniiproject» M.A. Trotsky has supported the YACONTO Program from his side and reported that due to lack of transshipment facilities on the Black Sea coast, large quantities of Russian cargo are being processed through the ports of the Baltic States and Ukraine, and Russia is suffering large losses that could have been avoided.

N. Khvoschinsky tried to prove that BSCP cannot perform export shipment of oil and liquefied natural gas from Russia and CIS countries due to the complete distribution of quotas between transport enterprises of Russia, while increases in exports of oil and gas are not anticipated in the coming years. Even if the situation changes, he claimed, the ports already available on the Black Sea coast would be sufficient to handle that, so there is no need to build new facilities.

At the meeting, the acting Chief Engineer of the Tuapse MAP L.V. Yukht and N. Kvoschinsky argued that the transfer of the old Tuapse trade port to the Ministry of Defense of Russia is impossible due to high complexity with the entering and location of Russian naval ships in the port water area and because of strong waves in the port due to the "tyagun" effect (vibrational motion of water causing cyclic movement of vessels). We objected, saying that these technical problems can be eliminated through the reconstruction of the port, and the issues of defense and securing of state interests in the Southern Russia are the responsibility of state leadership and the Ministry of Defense.

Advisor to the Minister of Transport of Russia V.V. Aristarkhov proposed to support the YACONTO Program for the construction of BSCP and accelerate its implementation for the benefit of economic development in Russia.

Only N. Khvoschinsky and the Tuapse MAP representative spoke - in a veiled form - against the Program, insisting that it's preferable to reconstruct and expand the old Tuapse trade seaport and construct a new port at Cape Kadosh in Tuapse, in accordance with the previously developed technical project. At the same time they ignored the environmental and economic impacts of their project that we indicated in our Program, Reference and Report. Judging by the arguments of these figures which do not correspond to reality, we can conclude that they are hiding behind the interests of the state, being, in fact, guided by the instructions of those behind them. In reply to our direct question if Russia needs a new modern commercial port on the Black Sea and investments for constructing one, N. Khvoschinsky replied evasively that, being a "professional", he knows better than the investors where they should deposit their money, but neither the Ministry of Transport nor the state will be held liable for the risk of such investments. This "professional" also said that the port itself and its docks, constructed at the expense of an investor, will not belong to the investor, but to another structure. The investor, he said, will only own the equipment, machinery and mechanisms located in the port so that the investor can use them to recoup their investment spent on the construction of a new port.

After the meeting, N. Khvoschinsky passed to us the draft of the Protocol prepared in advance before the meeting, saying that after having it signed by the Deputy Minister V.I. Yakunin one copy will be provided to our company. **Having examined the draft Protocol, we found a substitution in the text regarding the construction site of BSCP: the city of Tuapse was specified instead of Tuapse region.** The draft Protocol says nothing about the YACONTO Program from 12.09.2000 that was discussed, and yet nothing on the Report of YACONTO LLC. Later, when talking on the phone regarding corrections to the text of the Protocol of the meeting, N. Khvoschinsky said that negotiations with partners from the Baltic States are more important to him than the definition of the location of BSCP.

The fact that we have found a substitution of the planned BSCP construction site in the text of the draft Protocol of the meeting of 23.10.2001 led to a denial to sign the amended Protocol and to provide it to YACONTO LLC under various absurd pretexts.

Please give orders to send the signed Protocol of the meeting in the Ministry of Transport of 23.10.2001 to YACONTO LLC.

President
of YACONTO LLC



S.P. YAKUNIN

(The Russian text of this letter is an original.)