

**To the Advisor to the President
of Russian Federation
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**Analytical Note
on the project of a non-state investment
YACONTO Integrated Program of federal significance**

I. Significance for the defense and security of Russia

1. Geopolitical situation in south-western Russia.

Russia's geopolitical position is specific: the country occupies an intermediate position between the two great civilizations of the world - the eastern and the western, serves as a natural "custodian" of civilization equilibrium, and at the same time the holder of the global balance of power. Russia occupies a unique geopolitical and imperative geo-strategic position in the heart of Eurasia, the key region of the globe in terms of access to land transport arteries, seas and oceans, as well as virtually all types of raw materials and resources.

The collapse of the Soviet Union led to significant changes in the geopolitical and geostrategic worldview. Bipolar structure of international relations ceased to exist, and with it the old system of balance of power both at global and regional levels. This clearly reinforces the trend of power redistribution in the world, stimulates change of positions of individual states and promotes the formation of new collective security and economic alliances.

For the U.S., Eurasian geostrategy is a purposeful management of states that are dynamic from the geo-strategic point of view and a careful treatment of the catalyst states in the geopolitical sense, observing the two equal interests of the U.S.: in the nearest future - preservation of their exclusive global power, but in the long run - its transformation into more institutionalized global cooperation.

American global supremacy is supported by a complex framework of alliances and coalitions that literally ensnares the entire world.

The North Atlantic Treaty Organization (NATO) binds most developed and powerful nations of Europe to America, making United States the main player in all affairs, even in internal European business. Even in the post-Soviet spaces different schemes for closer cooperation with NATO supported financially by the Americans, such as the program "Partnership for Peace", were spread.

The most important factor is the almost done deal of Ukraine joining NATO after Viktor Yushchenko's election as President of Ukraine. This would deprive Russia of its dominant position in the Black Sea, where Odessa served as a vital port for trade with Mediterranean countries and the world as a whole, and Sevastopol was the main base of the Black Sea Fleet that Russia can lose even before the end of the agreed term of lease of Sevastopol in 2017, while there is no place to relocate the Black Sea Fleet of Russia and redeploy Russian sailors.

The loss of Ukraine was a geopolitically significant event because Russia's geostrategic choice is considerably limited. Russia's loss of its dominant position on the Black Sea is complicated not only because of Ukraine's incline towards NATO, but also because the new independent states of the Caucasus - Georgia and Azerbaijan - have strengthened Turkey's ability to restore the once lost influence in the region. Until 1991, the Black Sea was the starting point for Russia's projection of its naval power in the Mediterranean region. But by the middle of 1990s Russia was left with a small coastal strip of the Black Sea and an unresolved contentious issue with Ukraine on the rights to the stationing of the remnants of the Soviet Black Sea fleet in the Crimea, not having any more or less acceptable naval base for the Russian Black Sea Fleet. Further to the south-east the geo-political upheaval has caused a similarly significant change in the status of Russia in the Caspian Basin and Central Asia as a whole. Prior to the collapse of the Soviet Union, the Caspian Sea was actually a Soviet lake, a small southern sector of which was on the border with Iran. As a result of deliberate nationalist policy of Azerbaijan, whose positions have been strengthened by eager Western oil investors who rushed into the republic, as well as Kazakhstan and Turkmenistan, Russia became merely one of five contenders for the riches of the Caspian Sea. The new states now control most of the deposits of mineral and energy resources, which have become attractive for the western industrialized nations.

In order to protect its national interests and to manage its resources freely, Russia must restore its position of a maritime power in the Azov-Black Sea basin and the Caspian Sea.

The following are Russia's vital interests in the Black Sea:

- preservation of Russia's sovereignty, ensuring its territorial integrity against aggression from the southern sea directions;
- maintaining the security, strategic and regional stability in border areas, the Black and Azov seas adjacent to Russian territory;
- strengthening Russia's position on the world stage as a great naval power;

- ensuring the immutability of existing maritime boundaries;
- agreements to resolve problems related to the status of the Azov Sea and the Kerch Strait;
- settlement of the established mode of usage of important marine areas and the Black Sea strait zones, traditionally located in the area of international interest;
- initiation of agreements on the refusal to base naval forces on foreign soil (Odessa, Sebastopol, Poti, Batumi);
- protection of its rights in the waters of the Black Sea, Azov and the Mediterranean Seas, within the jurisdiction of Russia and the rights of the Russian citizens located abroad;
- political settlement of territorial and other claims against Russia on the international legal basis;
- unconditional fulfillment of agreements on non-proliferation of nuclear and other weapons of mass destruction or effect (WMD/E);
- cooperation in the elimination of sources of international tension and military conflicts, in particular, by using the Navy;
- maintaining the composition, condition and readiness of the Black Sea Fleet at a level sufficient to provide deterrence of potential adversary from aggression from the sea and the repulsion of such aggression;
- an adequate response to the creation of new military alliances and blocs;
- development of a collective security system;
- respect for the interests of all states, exclusion of double standards in international relations;
- preservation of military-political situation that excludes the prevalence of group interests or interests of individual countries over the interests of Russia in the Black Sea area;
- exclusion of acute conflict situations in the field of naval operations;
- participation in peacekeeping operations under the auspices of the UN or other regional collective security bodies;
- compliance with international treaties and obligations of Russia;
- securing Russia's military and strategic interests in the Mediterranean and Black Seas;
- ensuring that the objectives of the Black Sea Fleet in the region correspond to the country's foreign policy-making;
- ensuring freedom and security of navigation, fisheries production, research and other activities from deliberate hostile action;

- reasonable expenditure and replenishment of marine resources (fishing quotas on the activities of all actors of the international community to the implementation of works for the restoration of natural and artificial processes in the marine biosphere, the legal finality of the problems of development of marine resources);

- providing easy access to resources not under the jurisdiction of other countries recognized by the international community;

- industrial use of resources, fishing and other activities in Russia's own areas and free economic zones for the domestic economy;

- economic benefits from the oceanographic, scientific, research and other intellectual activities;

- preservation of equal non-discriminative opportunity on the world market of goods, technology and arms;

- providing unimpeded access to international areas and communications important to Russia in strict compliance with international law;

- agreements with all entities of the world community on unconditional compliance with the requirements of the UN Convention on the Law of Sea of 1982 on the delimitation of the seabed beyond national jurisdiction of coastal states;

- agreements to ensure legal finality of the delimitation of exclusive economic zones (most 200-mile zones of coastal states overlap);

- agreements to ensure legal finality of delimitation of the continental shelf (in Russian territory adjacent to the seas several agreements of fragmentary nature are in power);

- development of capacity of sea ports, creation of new ports;

- development of shipbuilding;

- development of mutually beneficial relations with other countries.

The emergence of independent sovereign states of Ukraine, Georgia, Azerbaijan and the desire of the newly elected political leadership of these countries to join NATO means that in some places the south-eastern border of Russia was pushed more than a thousand miles in a northerly direction, and now this space can and will be taken by NATO naval forces and troops and, above all, the United States, as Ukraine and Georgia's determination to "express their will" was supported from outside.

In connection with the expansion of the EU and NATO, these countries will be able, eventually, to join the said organizations around 2005 - 2015.

Unilateral withdrawal of the Russian fleet from the Mediterranean Sea and its significant weakening in recent years allowed the U.S. to strengthen its position and pressure on Russia not only on the perimeter of the sea, but also its land borders, which significantly affects the geopolitical position of Russia. It is possible that in order to provide access to the Black Sea for NATO ships and their stay in Ukraine on long-term basis, Russia will be under pressure to revise the legal regime of the Black Sea straits, regulated by the Convention of the Straits of 1936 signed in Montreux, Switzerland (Montreux Convention).

Potential sources of danger for Russia are:

- lack of agreement on the status of the Azov Sea and the Kerch Strait;
- lack of agreement on the delimitation of exclusive economic zones and areas of marine fisheries;
- lack of agreement on the delimitation of the continental shelf;
- leading states ignoring the UN Convention on the Law of the Sea of 1982, and as a consequence, a two-fold approach to the delimitation of the seabed beyond national jurisdiction of coastal States;
- unsettled relations between states on the development of marine resources, inflicting considerable damage to Russia's economy;
- absence of permanent basing system for the Russian fleet on the Black Sea, while there is a clear trend of change in the balance of forces not in favor of the Russian Black Sea Fleet and the simultaneous expansion of U.S. Navy in the Black Sea region (visits of the ships of the 6-th Fleet are almost regular). We should also take into account a sharp increase in Turkey's influence in this region, attempts to tighten its regime of the Black Sea straits, which are traditionally in the sphere of international interest. Likelihood of Turkey and Iran's aggression in order to assist individual states of Transcaucasia and Central Asia by gradually drawing different states into the conflict is also not excluded;
- threat of Islamic fundamentalism drawing closer to Russian borders should also be taken into account. Based on the Islamic factor we can expect a revitalization of the Economic Cooperation Organization (ECO), which includes Turkey, Iran, Pakistan, Azerbaijan, Central Asian states;
- substantial naval power of the United States of America, seeking to dominate the world as a whole and certain regions in particular, as well as their adherence to solving disputes by military means, is also a threat to national interests and security of Russia from the sea;
- although the U.S. claimed that they do not consider Russia their adversary,

however, they remain the main driving force that shapes the external threat to Russia, including the southern region. Under certain conditions, they can not only organize, but also participate directly in a rapid deployment of military escalation against Russia with their immediate reaction forces.

Reasons forcing us to consider the military threat posed by the U.S. Navy and NATO marine forces:

- constant presence of U.S. naval forces in the eastern Mediterranean and in the future in the Black Sea within the reach of their carrier-based aircraft and short-range cruise missiles to the ground objects in central Russia; their presence in these areas cannot be justified by defensive purposes;

- a sharp change in the balance of forces in the Black Sea is not in favor of Russia, given the that the NATO naval forces are able to maneuver the international European waterway corridor, the balance of power between the Black Sea Fleet and NATO naval forces could reach 1 : 11 in favor of NATO;

- opportunity for a potential aggressor to use the territories of Ukraine and Georgia as a springboard for the invasion of the land areas.

However, Russian foreign policy in the South inevitably becomes of strategic importance. It's this policy that should play a major geopolitical role in the achievement and maintenance of regional stability in southern Russia. The most important tool to confirm this role is the Black Sea Fleet. In this connection it is necessary to take urgent measures at the state level to quickly address the most pressing problems of creating a basic system for, and subsequently increase the combat potential of the Black Sea Fleet.

2. Operative and strategic evaluation of the consequences to Russia of possible accession of Ukraine and Georgia to NATO.

The need and possible options for the construction of a basing system for the Black Sea Fleet of Russia.

Expansion of NATO and its approach to Russia from West to East, and in the nearest perspective, due to purposeful activities of the new leaders of Ukraine and Georgia Viktor Yushchenko and Mikhail Saakashvili, from South to North, is another step in implementing the plans of the military-political leadership of the U.S. for eventual weakening and possible destruction of Russia as an independent state. After achieving the goals of the “cold” war and the collapse of the Soviet Union, the attitude towards Russia as its successor has not changed.

From the U.S. military command's point of view, grouping forces and troops

should be placed around the sources of threats to the U.S. and should enable rapid pre-emptive strikes on them.

At the same time, the analysis of the character of concluded and projected expansion of NATO shows that Russia continues to be such a source of threat to them; while international terrorism and the fight against it - is nothing but a cover that allows the creation of favorable conditions for the preparation, initiation and conduct of military conflict with Russia. In essence, the present actions remind of the "Anaconda" plan, designed not for the conditions of nuclear war but for the use of armed forces in limited wars with conventional weapons.

Relationship between the activities of political and military nature is easy to trace. For example, in connection with the expansion of NATO, military and political leadership of the U.S. plans to implement a brand new concept of deployment of U.S. forces on foreign territories in the coming years (until 2006).

The new structure of the foreign military presence in the U.S. will include the modified existing network of bases, as well as new military objectives located in Ukraine and Georgia, as they consider these countries critical to the United States.

Deployment of U.S. military facilities on the territories of new members of the bloc, including Eastern Europe (Ukraine, Bulgaria, Romania), in the Caucasus (Azerbaijan, Georgia), and increased military presence in Central Asia (Afghanistan, Iraq, Pakistan, Kyrgyzstan, Tajikistan and Uzbekistan) is creating a huge military threat to Russia's southern areas.

Relocation of units of the U.S. Armed Forces to individual military sites began in 2004 and will continue in the coming years. At the same time the deployed military bases are expected to host formations and units, scheduled to be withdrawn from Germany.

U.S. aims to expedite the process of NATO expansion at the expense of politically and economically weak states, which is the case for all new NATO members; states that will unconditionally fulfill all the demands of its ally, including the use of military force. Demand for a radical reduction of the armed forces of the new members as one of the basic prerequisites for joining NATO may indicate that the military-political leadership of the United States seeks to make these countries even more dependent on its policy.

The new concept defines the requirements for the deployment of military facilities and their use by the U.S. Armed Forces more clearly. For example, the terms of agreements on U.S. bases on foreign soil should provide a guaranteed and free use of facilities in the interest of U.S. forces with little or no additional

coordination with the government of the host nation or neighboring countries. Facilities should be located near the railroad hubs, seaports and airports, planned to be used for loading and unloading of U.S. personnel, weapons and military technology.

3-tier structure of a network of military bases and facilities must strengthen military control in areas closest to Russian territory, create opportunities for the rapid build-up of troops and forces, as well as reduce the maintenance cost of military installations abroad. Ukraine and Georgia with their airfields and ports are the best fit for these purposes.

At the same time, third tier can be deployed in these countries, which will include forward operating points prepared in advance - military facilities not used under normal conditions, and warehouses with prepositioned stocks of arms, military equipment and munitions. The deployment of U.S. troops to the forward operating points can be expected in crisis situations and for the conduct of military action.

At the same time, the analysis of NATO's events and actions in recent years indicates deployment of the second tier in the above-mentioned locations, which will include a significant number of newly created forward operating bases (FOB). Conditions for the temporary accommodation of large contingents of troops, materiel, and supplies of military equipment are expected to be created there. Basing of limited numbers of U.S. military troops on the FOBs is planned to be carried out rotationally (up to 6 months) with the possibility of a rapid boost in the event of an exacerbation of the situation.

The establishment of military facilities and third and second-tier bases of forward-basing system, time of building up the Armed Forces units and the effectiveness of their support with MTE resources during the military conflicts in the South-western strategic direction will primarily depend on the capabilities of the Military Sealift Command of U.S. Navy and NATO naval forces as a whole. For this they must ensure the establishment and smooth functioning of the ocean and sea routes for transportation across the Atlantic from the U.S. to Europe and the maritime communications in the Mediterranean and Black seas - to support the actions of the military groups from the territories of Turkey, Ukraine and Georgia.

The fleet structure of the Military Sealift Command (MSC) of the U.S. Navy and the National Defense Reserve Fleet now and until 2030 enlists more than 190 vessels. 330 ships of civilian agencies and foreign companies are controlled by the MSC and are able to solve the problem of transportation of weapons and military

equipment.

Vessels chartered by the MSC of the U.S. Navy under the American and foreign flags can provide secrecy in the process of creation of forward operating points and forward operating bases of third and second tier. Reserves of materiel and military equipment can be boosted within a short period via usage of storage ships of the system of advance storing of U.S. armed forces, which have military equipment, weapons and means of logistical support stockpiled on board (in total - 38 multi-purpose storage ships). Already in peacetime these vessels are in the forward areas within a four-hour readiness to sail. 17 transport vessels from the 1st, 2nd and 4th squadrons of storage ships (50% of the entire grouping) brought a set of weapons and military equipment to equip two Marine Expeditionary Brigades and one armored brigade of the U.S. Army into the territory of Kuwait in January 2003 within 10 days. At the same time the entire personnel of the deployed forces and troops was moved by air. Thus, the integrated use of forward-base system and the MSC of the U.S. Navy can ensure the deployment in Turkey, Ukraine and Georgia of Ground Forces groups of up to 150,000 people in each direction within 14 - 18 days. This will allow U.S. and NATO command to take the decision to use military force for military action in no time, intercepting the deployment of the Russian Armed Forces groups.

Analysis of the construction of the U.S. Navy shows that while the main goal "... to improve the readiness to fulfill the task of power projection to any, including the most remote, regions of the world to promote American national interests and security of the United States from potential threats of the future" stays immutable, the content of the concept of the Navy reform is changing. This concept should solve the following task: "U.S. forces must be in constant readiness for intimidation, sometimes to the battle, and always to victory". This is possible through an optimum combination of:

- threats - the possibility of delivering nuclear strikes, that is, nuclear deterrence, as well as the use of weapons of increased potential danger like precision-guided weapons, and, above all, sea-launched and air-launched long-range cruise missiles;

- increasing the combat capability of naval forces and the full integration of components of the Navy and Marine Corps into a single structure that can lead active combat operations in conjunction with other types of armed forces on the forward theaters of operation.

In other words, the complete domination on the sea should ensure the

effective conduct of military operations on land.

Analysis of changes in the quantitative composition of the U.S. Navy and other NATO countries can confirm this conclusion.

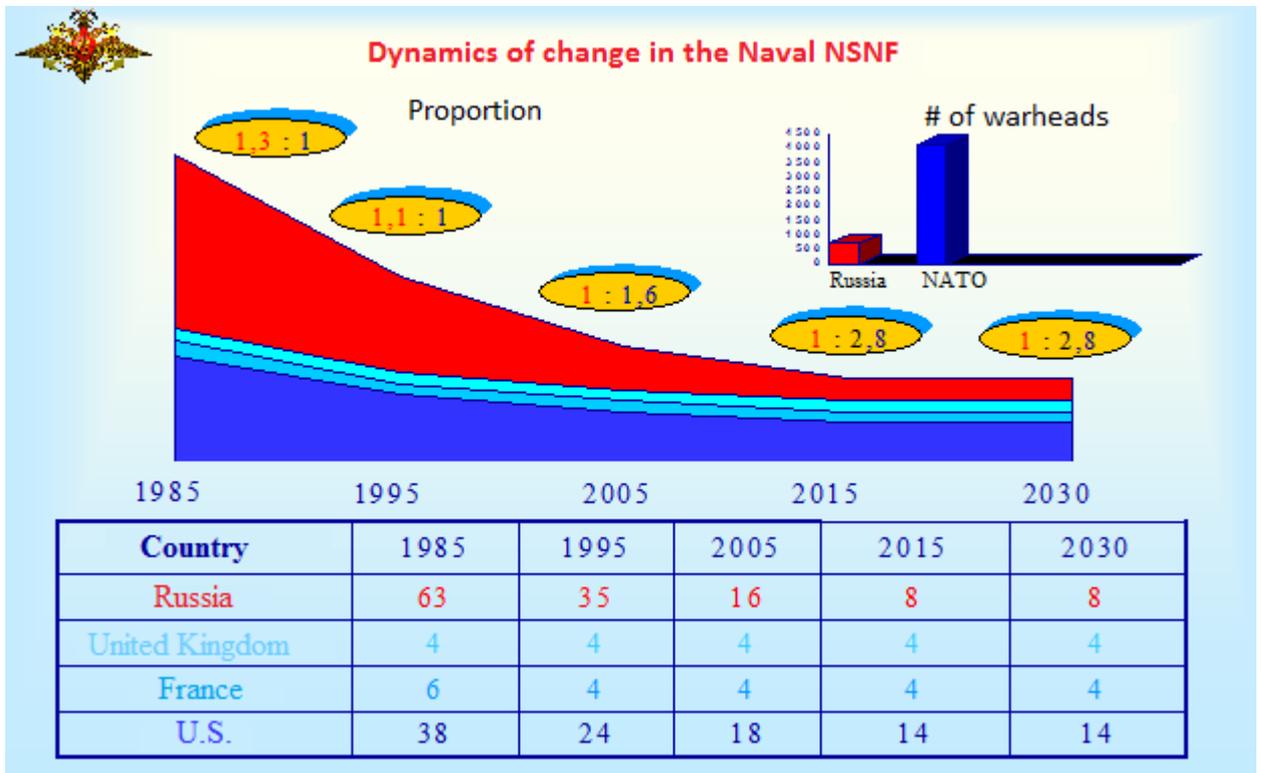


Image 1

As it follows from Image 1, NATO's group of Naval NSNF will have a quantitative superiority in carriers and in warheads.

Moreover, presence of 8 SSBNs in the grouping of the Russian Navy NSNF is possible only under the most favorable financing for their construction. In case of no funding, only one SSBN will remain in the Naval NSNF by 2030.

As it follows from Images 2 and 3, the composition of the U.S. submarine forces until 2030 remains virtually unchanged. Moreover, the third and the fourth generation submarines will be replaced by the fifth generation. At the same time, reconstruction of *Ohio* class submarines to carriers of long-range subsonic cruise missiles will increase the submarine group's capabilities to destroy ground targets at least two times. Fourth generation leading ships of the Russian Navy are laid down and even the composition of the series is not yet defined. Therefore, new generation submarines of the Navy cannot be commissioned until 2025 - 2030.

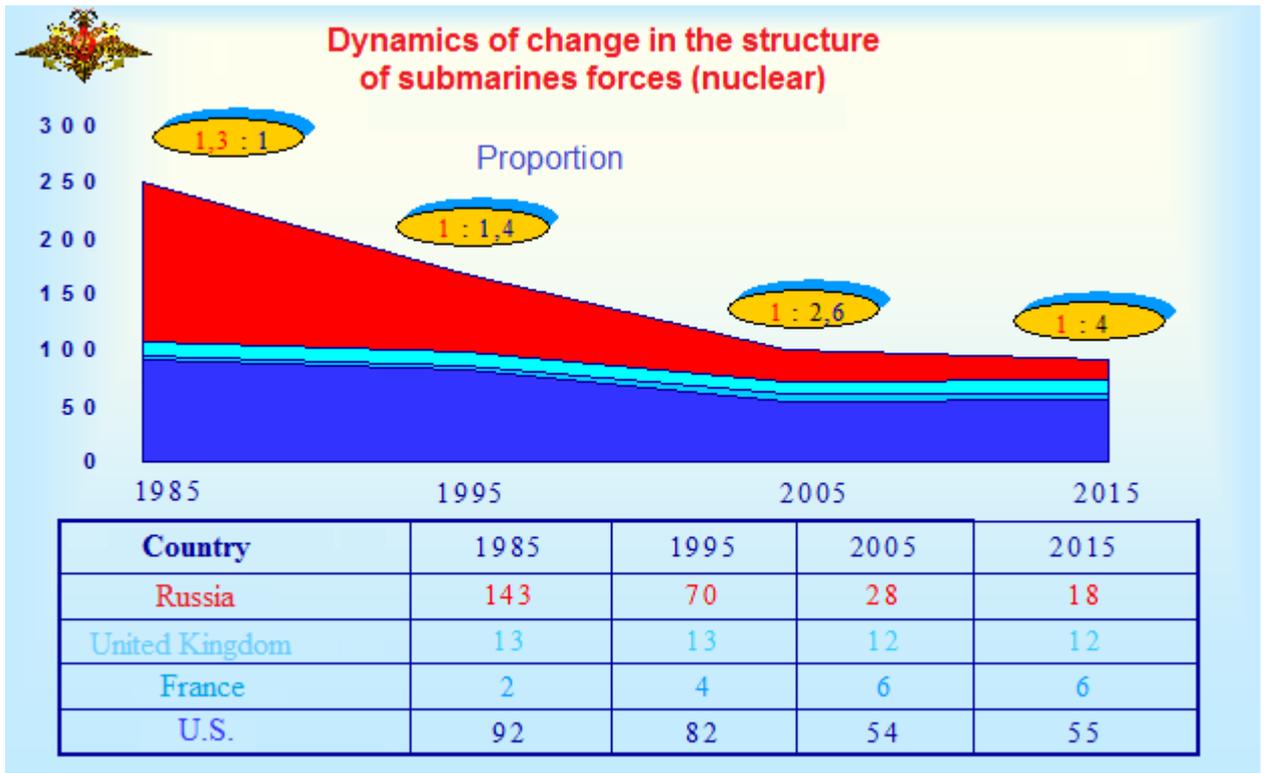


Image 2

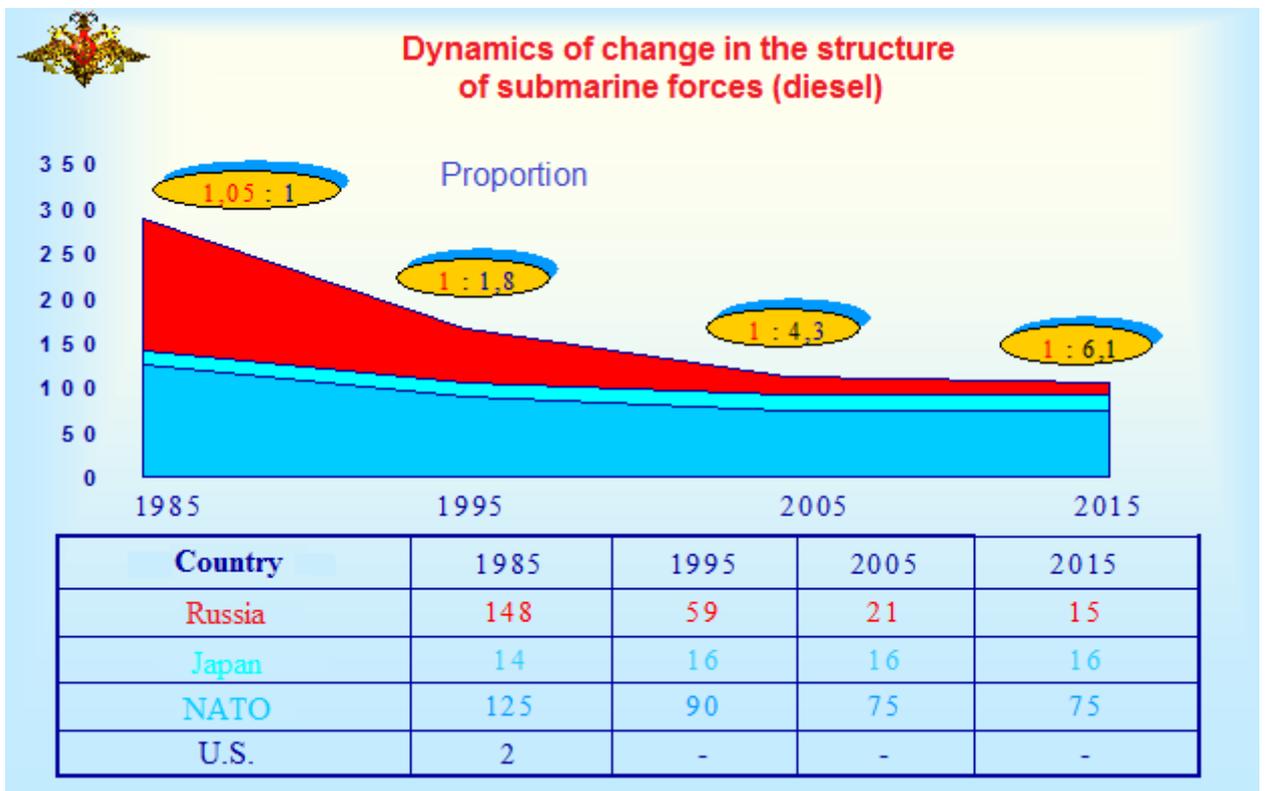


Image 3

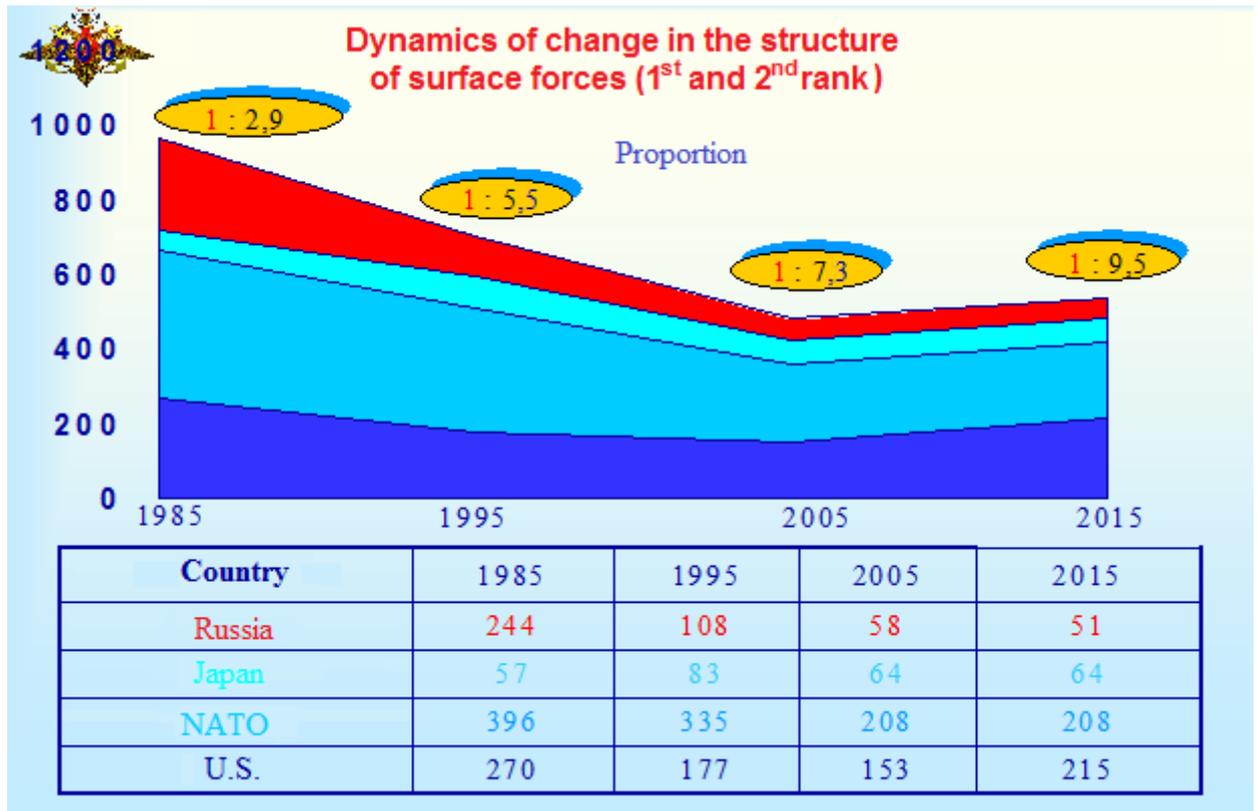


Image 4

Since 2005, in accordance with the approved shipbuilding program, the number of U.S. surface ships starts to grow (Image 4). Funds for the purchase of 7 nuclear-powered aircraft carriers, 24 cruisers and 41 destroyers are provided. Taking into account the decommissioning of obsolete ships, the U.S. Navy will have 12 nuclear-powered aircraft carriers, 12 amphibious assault carriers and over 100 cruiser/destroyer class ships. All cruisers and destroyers will bear long-range cruise missiles, and each will be equipped with vertical launch systems with 91/128/200 launchers, as well as 155-mm artillery units with a range of up to 150 km (CEP no more than 15 meters) and 127-mm AUs with a range of up to 120 km with the same circular error probable. Radio-electronic capabilities of cruisers and destroyers will guarantee detection of tactical/theatre ballistic missiles at ranges up to 1000 km, ICBMs - up to 2000 km, tracking up to 1000 targets simultaneously aiming up to 10 SAMs and the defeat of air targets in the range of 300 km and at altitudes up to 70 - 250 km. In the Russian Navy, construction of ships of similar construction is not planned. Frigates of the Russian Federation will be inferior to CG (X) cruisers and DD (X) destroyers from the perspective of attack and defense capabilities, as the American ships are ships of a newer generation.

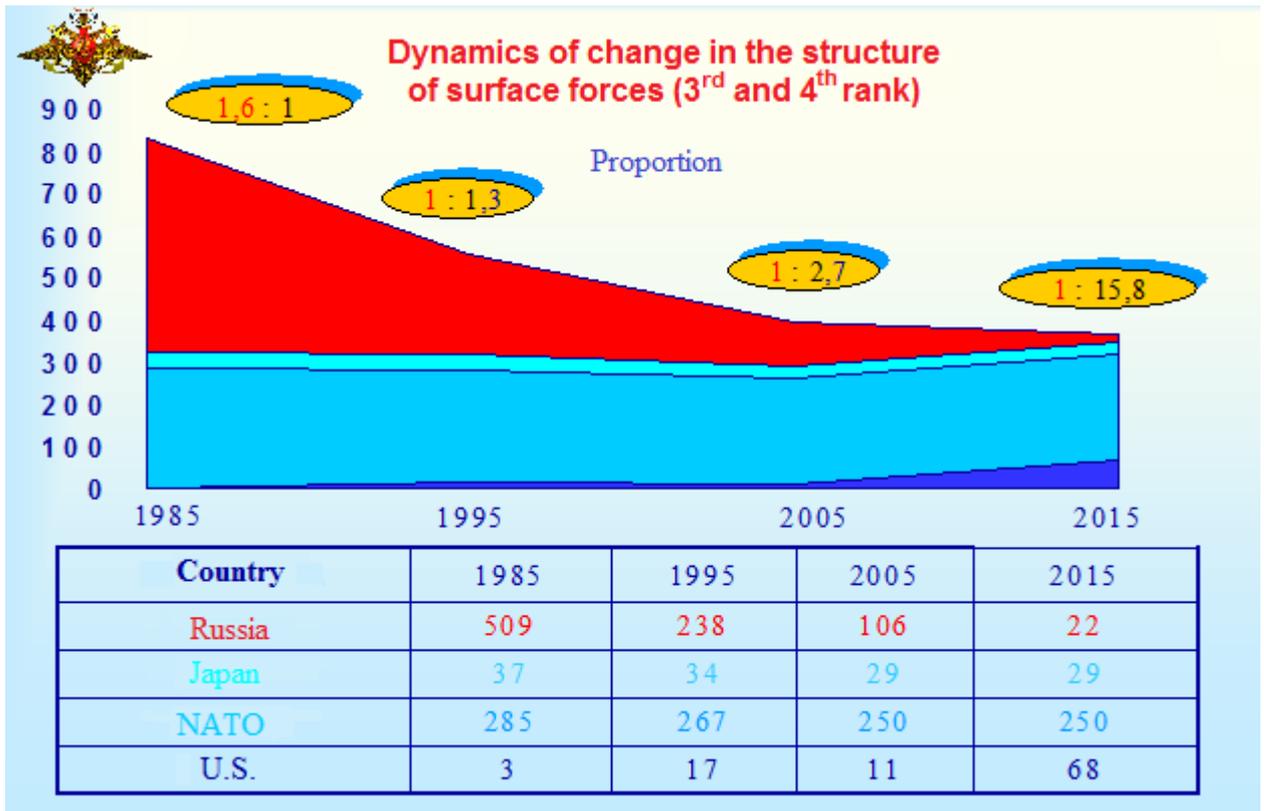


Image 5

According to the U.S.'s new shipbuilding program, for the first time in 30 years, construction of 57 ships for action in the coastal area is planned (Image 5). Corvettes (LCS) with a displacement of up to 1,000 tons and speed of up to 50 knots, equipped with vertical launch missile launchers, 57 mm gun mounts with increased firing range, sonar systems, reconnaissance, systems of location and neutralization of mines, with two helicopters and advanced unmanned aerial vehicles on board may be the ideal for the conduct of military operations in sea areas, such as the Mediterranean, Black, Azov and Caspian Sea. The new corvette of the Russian Navy with a displacement of 2,000 tons and a cruising speed to 26 knots, with all new technology invested, still did not manage to overcome the backlog caused by a failure in the financing of development and introduction of new types of weapons and armaments.

It should be noted that the 30-year U.S. shipbuilding program, adopted in 2000 and planning for 313 - 317 warships to be in the active service of the Navy by 2024, *was revised upwards in 2003, and now up to 375 warships and submarines are planned to be in the service of the U.S. Navy by 2022.*

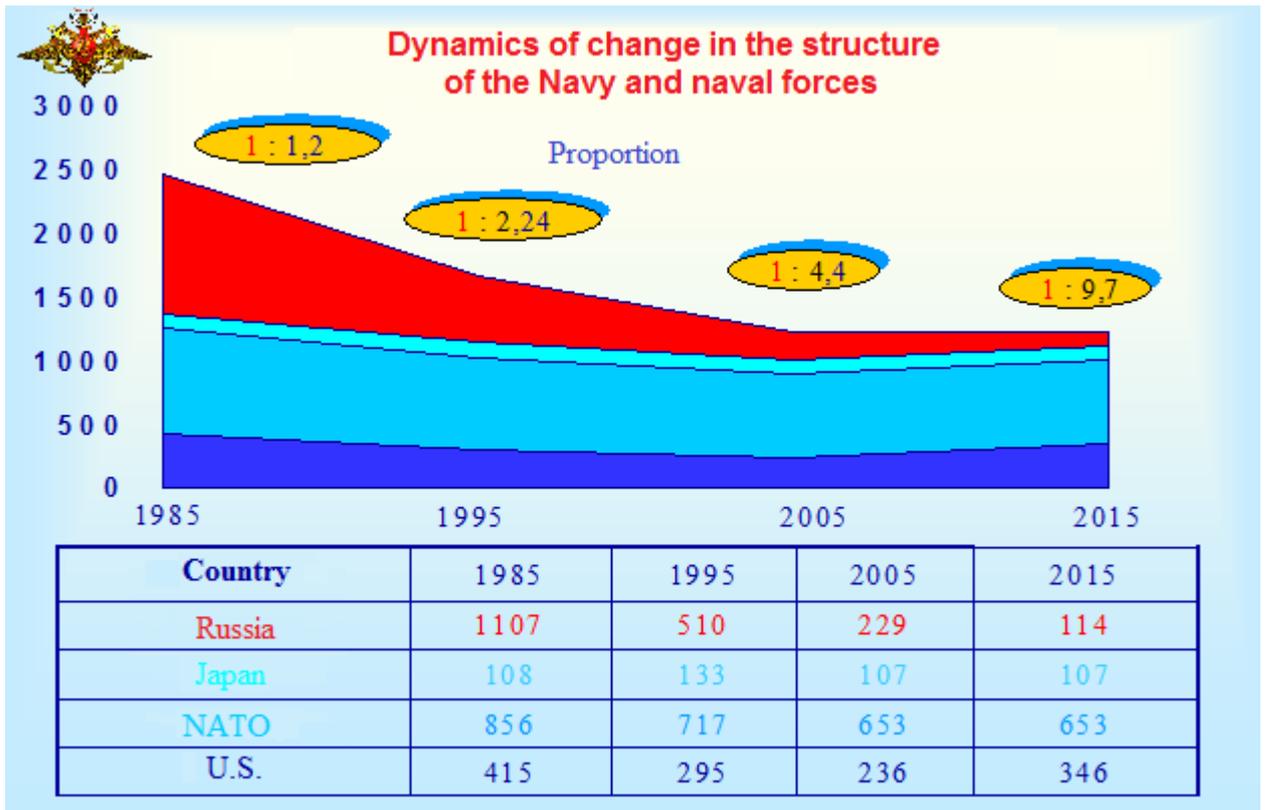


Image 6

Image 6 shows quantitative structure of the Navy and naval forces up to 2015 due to lack of data, primarily on the Russian Navy side.

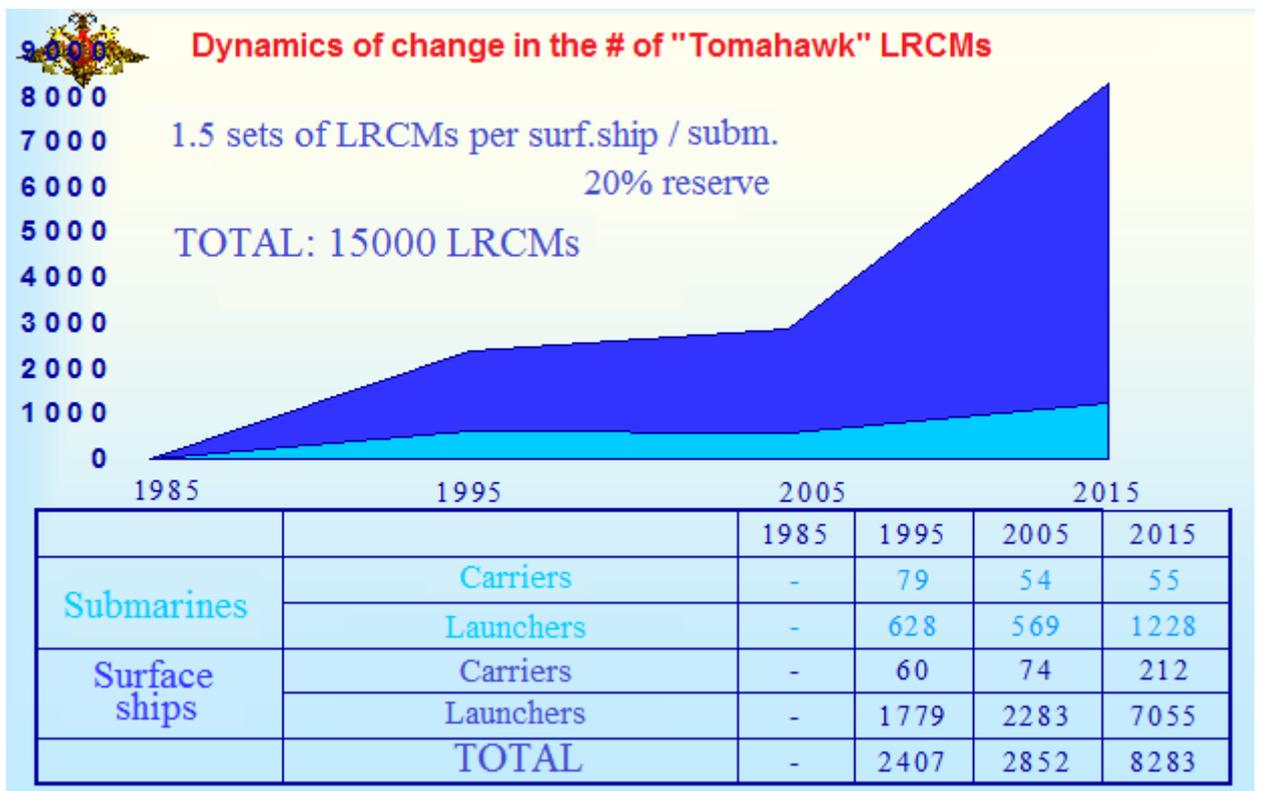


Image 7

Given the increase in combat capabilities, the U.S. Navy in 2022 will be significantly stronger than the U.S. Navy was in 1985, at the time of greatest strength of the USSR Navy.

Priority in the shipbuilding program is given to the construction of surface ships. This is partially due to reduced threat from the Russian Navy's submarine forces, but mainly due to the fact that surface ships have the greatest opportunity to demonstrate the strength and support of ground troops and Air Force in their actions in the coastal areas and deep in territory of the enemy state due to mass production of "Tomahawk" precision missiles.

In the 1990s it was planned to provide the U.S. Naval forces with up to 15 thousand "Tomahawk" long-range subsonic cruise missiles (Image 7). With the price of each "Tomahawk" Block III missile at \$1.2 - \$1.4 million, it would have been a huge burden on the state budget and it seemed that the U.S. military command is bluffing. But with the "Tactic Tomahawk" Block IV, worth \$569,000, entering service and the announcement of a tender between the leading companies for designing and creating long-range cruise missiles worth \$50 - 60 thousand dollars per unit at the expense of some performance features, not only the aforesaid number but much bigger numbers become a reality. At the same the figure of 15,000 "Tomahawk" long-range cruise missiles (LRCMs) is confirmed by the shipbuilding program. By 2015, over 8,000 cruise missiles will be deployed on the carriers - surface ships and submarines - in launchers. It is planned to deploy 1.5 sets of ammunition on the ships of U.S. naval forces - carriers of LRCM, which is around 12,000. Together with 20% LRCMs stored in warehouses and arsenals, the total number amounts exactly to 15,000 units. In the case of adopting a forward-looking "cheap" missiles, the U.S. military command will be able to implement the following concept: by 2015 the supply of LRCM must ensure the conduct of military operations by the naval groupings in a regional conflict lasting up to 60 days at a rate of 1,000 missiles a day, and by 2030 - in a regional conflict, lasting up to 90 days.

The approved shipbuilding program is designed to pursue three key operational concepts that can be implemented by the NATO in the Mediterranean and Black Sea areas against Russia from territories of Ukraine, Bulgaria, Romania, Turkey, Georgia, using up to 20%, and in the event of a regional conflict - up to 50% of forces and means, shown in the tables of Images 1 - 7:

1. «Sea strike». Through improved intelligence, surveillance and reconnaissance, enhanced accuracy and extended range of offensive arms, this concept is to significantly enhance the role of naval forces during ground

operations carried out by the U.S. military groupings, not only in coastal areas, but also deep in the enemy territory. In this case the concept of regional wars can provide U.S. military commanders the ability to create an overwhelming superiority in manpower and equipment at selected strategic areas. Therefore, the Expeditionary Strike Force (ESF) will become the main operational unit in the U.S. Navy, including a Carrier Strike Group and an Expeditionary Strike Group, as well as fused tactical formations of carrier-based aviation and the Marine Corps aviation. In turn, the ESG is an operative unit in the CSG and an Amphibious Ready Group (ARG).

2. «Sea shield». The concept envisages creation of favorable conditions for the conduct of military actions by strike forces of the fleet and Marine Corps with an active enemy counteraction in the areas of conflict. In this regard, anti-aircraft warfare and theater missile defense systems will be upgraded, in particular, through the inclusion of newly built and upgraded ships with new systems of monitoring the air situation, and anti-aircraft Standard Missile-2 mode 4A missiles and SM-3 anti-ballistic missiles with an operational range for air targets up to 240 km. Funds for the purchase of small coastal ships and an upgrade of the Navy's helicopter fleet are also provided. The above also confirms that the U.S. command's focus is moved towards the marine areas, including the Mediterranean and the Black Sea, and confirms their intention to support the actions of groups of armed forces from the territory of new NATO members.

3. «Sea basing». This concept is to ensure the establishment of the marine component of the forward stationing system of U.S. armed forces. In addition to land military bases, this system will include naval bases (most likely Sevastopol, Nikolaev, Odessa, Batumi) and modular multi-purpose marine platform. They will host military units in necessary numbers, auxiliary radar equipment, aircraft, artillery systems, points of contact, and other items required to conduct independent military operations for 30 days. It can host a wing of tactical aircraft and up to 500 launchers of "Tomahawk" LRCMs. At the same time aircraft flights may be conducted with a sea state of up to 7 - 8 points. In case of deployment of universal platforms Washington will not have to have lengthy negotiations with foreign countries to host U.S. military bases on their territories - neither medium nor small, and hence, there are no costs associated with the area lease.

In order to implement those concepts within general defense spending, expenditures on building the Navy and the Air Forces become a priority, as illustrated on Image 8.

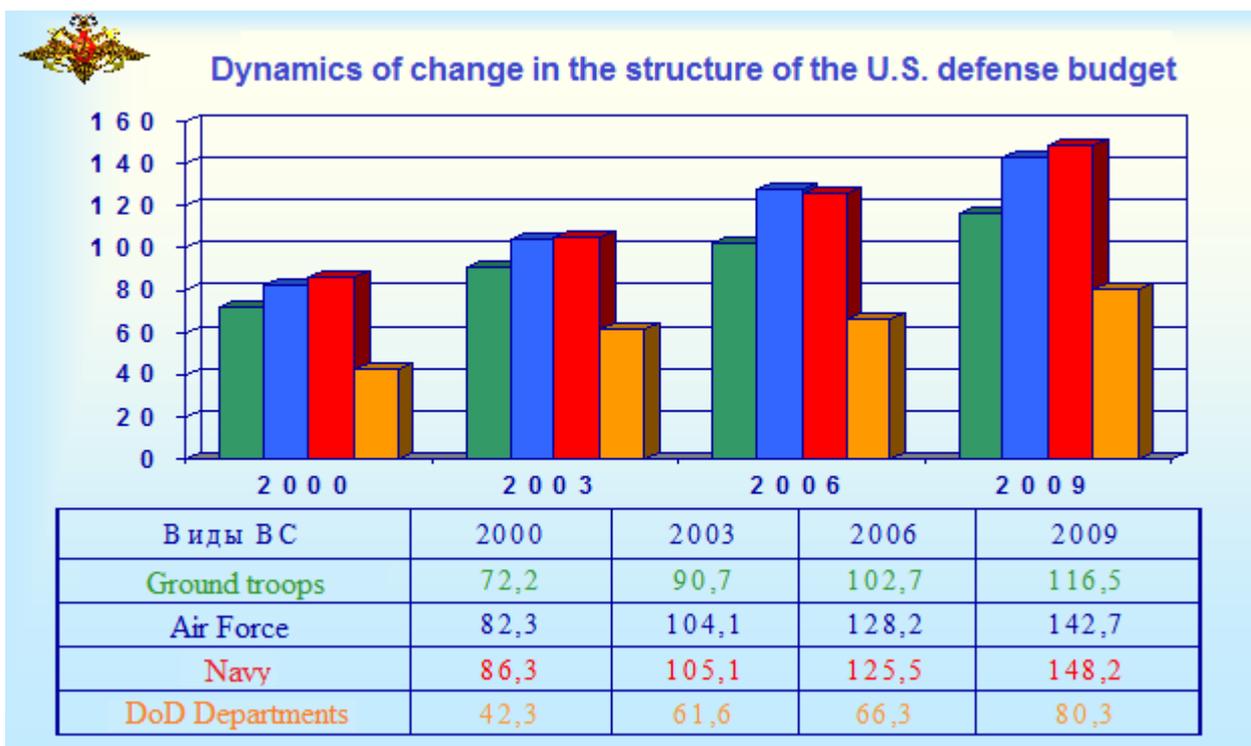


Image 8

The deployment of forward basing system of the U.S. forces on the perimeter of Russia's borders, creation of highly mobile Navy groups and development of methods for operational and strategic employment of forces and troops of different types of armed forces possessing emergence and synergy qualities, may allow the U.S. military-political leadership to start conducting the so-called "controlled military conflicts". This controllability essentially means that those conflicts will be conducted when and where it benefits the U.S. Their efforts in the near future will most likely be concentrated around the Black Sea area due to a particular political activity of Ukraine and Georgia and the instability of the situation in the south-western region of Russia and CIS. Transition to a new military concept described by a "10 - 30 - 30" formula is another step to it. The essence of the concept is the maintenance of forces and troops in such a state of combat readiness, which would allow to start military operations anywhere in the world within no later than ten days after the decision of the military-political leadership of the United States. In 30 days the American troops must destroy the adversary's troops, and deprive him of the possibility to resume organized resistance in the foreseeable future. Within 30 days the troops must regroup in a timely manner, restore their combat power and be ready for new challenges in other regions.

Territories of Ukraine, Georgia and Azerbaijan - the former independent republics of the Soviet Union - are suitable for the conduct of armed conflicts due

to the following circumstances:

1. Conducting limited military conflicts is most advantageous to the side which has superiority in forces and capabilities to quickly increase it.

2. In its role as “peacemaker”, the military-political leadership of the United States will seek to push people, rather than countries, against each other. Most often, exactly such situations render the armed struggles most protracted and bloody. At the same time the U.S. and NATO military commands become able to adjust the level of military action, that is, to some extent prevent the escalation of the conflict “vertically”.

3. Territorial boundaries of Georgia, Bulgaria, Romania and, to some extent, Ukraine help to keep military actions within a limited space, not allowing “horizontal escalation” of the conflict.

4. Naval and air forces of the U.S. and NATO, having implemented the concept of “depriving us of targets for destruction”, meaning, primarily, the U.S. military factions and territories of the “golden billion”; having blocked the forces of the Russian Black Sea Fleet by creating an effective system of intercepting and destroying strategic and long-range aircraft of the Russian Air Forces and by performing surgical and selective strikes with precision weapons and the use of electronic warfare will support the actions of the ground forces of the new NATO members, including future members, and thereby neutralize the possible numerical superiority of the ground troops of the Russian Armed Forces.

5. Such superiority of the ground troops of the Russian Armed Forces will be reduced significantly by the need to divert troops and forces to other strategic areas through the creation of a threat of an outbreak of hostilities in other regions.

Finally, what’s most important, geopolitical thalassocratic model developed by Mahan and Colomb, the essence of which lies in the fact that: “... he who controls the sea, controls the world”, was implemented by the military-political leadership of the United States in the second half of the XX century, during the confrontation with the Soviet Union. USSR and Germany, who had adhered to a tellurocratic model of gaining a leading position in the world, lost in this confrontation. No alternative to Mahan’s concept has been developed to date. Therefore, Russia may find itself embroiled in an endless stream of limited military conflicts with neighboring states backed by the United States.

In order to counteract NATO in the Black Sea area, Russia must urgently take actions necessary for solving the following important problems of the country:

- **Creation of a new single universal defense system for the south-western region of Russia, which includes all the components that ensure Russia's military and national security;**
- **Rescue of the remaining forces of the Russian Black Sea Fleet;**
- **Urgent creation of an extensive basing system for the forces and armed troops of the Russian Black Sea Fleet;**
- **Establishment of a new system of comprehensive support of the Navy.**

One problem that requires an almost immediate action is the problem of stationing of the Russian Black Sea Fleet, the main naval base of which is located within the territory of Ukraine - a foreign, no longer quite friendly state desperate to join NATO.

The above problems can be solved by the establishment of a modern basing system for the Black Sea Fleet on the territory of Russia, deployment of forces, troops and means of the Russian Black Sea Fleet within its boundaries and their incorporation into a single universal system of national security of the south-western region of Russia. Existing ports of Novorossiysk, Tuapse and newly created fleet stationing points (naval bases) could become the basis for the creation of a new extensive basing system for the Black Sea Fleet.

There are following location options for the construction of new naval bases: Kabardinka district near Novorossiysk city, Cape Kadosh in Tuapse town and territories in the Tuapse region located in the south-eastern direction from Tuapse between Dederkoy and Shepsie settlements, or between Shepsie and Vishnevka.

Location of a new Main Base of the fleet is very important.

3. Strategic and tactical evaluation of possible locations for the basing of the Black Sea Fleet on Russian territory.

The new basing system of the Russian Black Sea Fleet should be expanded and must provide stationing to the naval forces in peacetime and wartime, repair, comprehensive logistics, technical and special maintenance, warehousing of inventory and equipment, developed infrastructure, comfortable living conditions for servicemen and their families, persons engaged in providing needs of the naval base, a universal defense for the forces stationed in these bases and a connection to a single universal system of national security of the south-western region of Russia.

Strategic and tactical evaluation of the possible stationing points for the Black Sea Fleet forces on the territory of Russia shows that the new basing system of the Black Sea Fleet should have the following stationing points: the city of Novorossiysk, the town of Tuapse and a new stationing point south-east from the town of Tuapse located between Dederkoy and Shepsie settlements, or between Shepsie and Vishnevka. The final decision on the location for the new naval base must be taken by the Russian Ministry of Defense, on agreement with YACONTO LLC according to the List of Projects from 03.09.2004 of the YACONTO Integrated Program for Krasnodar Territory.

It is advisable to establish the main naval base in the new stationing point in Tuapse region. This base will be located in the centre of the Russian Black Sea coast, which creates the conditions to organize an effective defense, not only from the sea, but also ashore in case of aggression of potential adversary from the territory of Ukraine and Georgia. Meteorological, hydrographic, hydrological and seismic conditions do not prevent the construction work for the naval base and its normal functioning in future. The presence of a large city of Tuapse near the new naval base will provide additional opportunities to utilize various elements of the city's infrastructure for the needs of the naval base in case of emergency. A ship repair base currently available in the in the Tuapse Trade Port (TTP), as well as floating workshops and floating plants withdrawn from Sevastopol should be immediately drawn to address the needs of the Russian Black Sea Fleet, combined into a single ship repair complex for warships and civilian vessels. In the future, port facilities of the TTP will be upgraded and a stationing point for 3rd - 4th rank ships will be established.

Construction of the stationing point on Cape Kadosh is inappropriate due to adverse meteorological conditions and due to presence of state protected natural area of global significance in the area. This area can be equipped with firing zones and position for coastal missile and artillery troops of the Black Sea Fleet of Russia without compromising the conservation area.

Construction of the stationing point in Kabardinka district is inappropriate because the daily and military activities of the armed forces of the Black Sea Fleet will be negatively influenced by the proximity of the Novorossiysk Commercial Sea Port (NCSP) and other factors, namely:

- constant intensive operation of the NCSP, Novorossiysk oil terminal and oil harbor, while the handling volume and the traffic will only increase over time;
- ability of foreign ships visiting the Novorossiysk port to conduct detailed

reconnaissance of the activities of ships, military authorities and the stationing point in general;

- adverse meteorological conditions affecting the safety of stationing and navigation of ships in the event of *bora* - local storm winds, the speed of which reaches 60 meters per second, which caused damage to several dozen warships and civilian vessels;

- presence of a powerful oil terminal, which creates a threat not only to the ships standing in Tsemess Bay, but also in the area of Kabardinka in the case of sabotage and terrorist acts associated with the explosion of stores, oil spills and ignition of petroleum;

- relative proximity to the territory of Ukraine, which under certain circumstances, in case of a military conflict, can be a springboard for an attack of the ground forces of Russia's potential adversary, which could lead to the loss of the basing point (e.g., during World War II virtually all naval bases on the Baltic and the Black Sea were captured by the adversary from the land).

It is advisable that the Russian Government provides to the Navy one extra pier, in addition to the existing, at the Novorossiysk Commercial Sea Port for the organization of forward stationing point of the Black Sea Fleet forces, primarily forces providing cover for the port, the city and the oil terminal from military aggression and terrorist operations from the sea.

II. Economic assessment of construction of possible stationing and repair points for the Russian Black Sea Fleet ships.

1. Compliance with Russian legal and regulatory framework.

The unprecedented nongovernmental YACONTO Integrated Program of federal significance is compliant with the Russian legal and regulatory framework. Moreover, it encourages the development of new laws and regulations for the development and implementation of major nongovernmental projects and programs, approbation of which at their implementation will result in having an effective set of laws and regulations, which will significantly improve the effectiveness of the implementation of major investment projects in Russia.

An unconventional approach, administrative support at the federal level and the approval of the Russian President and Supreme Commander of the Armed Forces V.V. Putin are required for the implementation of the YACONTO Integrated Program.

2. Economic assessment of the creation of naval stationing points.

An important feature of the YACONTO Integrated Program is a broad involvement of significant long-term resources and assets of the Russian and foreign investors, which will also simultaneously solve the problems faced by the Russian Ministry of Defense by creating a common industrial, transport and social infrastructure with the “Commercial Black Sea port YACONTO” (the “YACONTO Port”) in Tuapse region of Krasnodar Territory.

The volume of the equity participation of the Russian Ministry of Defense will be determined and rapidly adjusted in accordance with its actual capabilities of target funding and participation in the implementation of the Integrated Program.

The implementation of the Integrated Program will provide a rational solution to a number of critical issues in the Russian defense and security by offering favorable conditions for the basing of the Russian Black Sea Fleet. The non-standard approach designed by YACONTO LLC allows optimally combining the solution of socio-economic and military problems, reacting quickly to the change of geopolitical factors and greatly simplifying the solution of problems faced by the Russian Ministry of Defense.

Russian Ministry of Defense is interested in attracting major long-term investments from other organizations to implement the Federal targeted program “Creation of the basing system for the Black Sea Fleet on the territory of Russia for the period of 2005 - 2020”.

The main part of this targeted program can be implemented within a single nongovernmental YACONTO Integrated investment Program, providing investments in the creation of the Tuapse Naval Base (TNB) in Tuapse region.

Implementation of the proposals listed in the YACONTO List of Projects of 03.09.2004 will allow the Russian Ministry of Defense and the Navy to make the most efficient use of allocated defense budget by redistributing those funds for the construction of forward bases and modern warships.

3. Socio-economic significance of the implementation of the YACONTO Integrated Program for the development of Russia’s southern region.

YACONTO LLC (Russia, Moscow) is the initiator, general investor and customer for the YACONTO Integrated Program.

Krasnodar Territory, Russian Black Sea coast is the selected location for the implementation of the YACONTO Integrated Program.

The purpose of the YACONTO Integrated Program is the construction in

Tuapse region of a “YACONTO Port” for the transshipment of over 100 million tons of cargo per annum and an establishment of a modern Tuapse Naval Base (TNB) with common production, transport and social infrastructure.

Timing of construction for the Integrated Program: 2004 - 2010.

The claimed amount of funding for the civil part of the YACONTO Integrated Program is more than ten (10) billion U.S. dollars and may be extended to twenty (20) billion U.S. dollars through the implementation of projects for the Russian Ministry of Defense.

YACONTO LLC developed an Integrated program consisting of large promising projects and programs of federal significance, intended for implementation in Russia and abroad by attracting nongovernmental investments. The YACONTO Integrated Program is aimed at socio-economic development and improving defense capabilities of Russia, as well as addressing the energy security of the industrial world, strengthening Russia’s position in the international division of labor, protection of the southern borders of Russia on the Black Sea coast, prevention of military threats and suppression of terrorist acts, smuggling of drugs, weapons and other goods. The implementation of the Integrated Program will significantly increase trade with Europe, America, Asia, Africa and Australia, including the CIS, the Middle East, and strengthen cooperation with them.

In order to ensure a coordinated economic development of the Krasnodar Territory and Southern Russia, YACONTO LLC proposed to implement a set of interrelated and complementary projects identified in the YACONTO List of Projects from 03.09.2004 as a single Integrated program; in particular it provides for the development of a basing system for the Russian Black Sea Fleet ships in the city of Tuapse and in the Tuapse region in the period from 2008 to 2020 with a rational view of current and projected business needs of the country and the needs of the Russian Navy.

The YACONTO Integrated Program has been developed in order to address the problem of an acute shortage of port facilities on the Russian Black Sea arising from the transition of several major commercial and military ports under the jurisdiction of Ukraine and Georgia. The loss of those ports causes billions of dollars worth of damage to Russia per year and keeps the country dependent on the political and economic interests of the former Soviet republics which inherited the military and commercial ports. Insufficient capacity of Russian ports is particularly sharp in the Azov-Black Sea basin, which has geographic opportunities for expansion and favorable conditions for sea and river transportation.

Economic estimates show that the projected traffic flows and volumes of handling are reasonable and the payback period of the YACONTO Integrated Program as a whole will not exceed 10 years from the beginning of operation of the “YACONTO Port” and its infrastructure.

Coordinated implementation of all complementary projects will ensure their highest cost-effectiveness and timely return on investments attracted for the implementation of the YACONTO Integrated Program.

An analysis of documents, analytical materials and opinions of governmental authorities and competent organizations presented for examination, allow us to reasonably argue that the YACONTO Integrated Program:

a) is in line with the National Security Concept (RF Presidential Decree № 27 from 10.01.2000), Military Doctrine of Russia (RF Presidential Decree № 706 from 21.04.2000), Federal Targeted Program “World ocean” (RF Presidential Decree № 11 from 17.01.1997), Fundamentals of Russian policy in the field of naval activities in the period up to 2010 (RF Presidential Decree № 471c from 04.03.2000), Naval Doctrine of Russia (RF Presidential Decree № 1387 from 21.07.2001), the main areas of economic security of Russia’s maritime activities and the regional maritime policy on the Black and Azov Seas, as well as the requirements of the Concept of shipping policy of Russia;

b) will contribute to completion of the tasks set by the President of Russia to accelerate the country’s economy and double the GDP by 2010;

c) will provide favorable conditions for the exercise of naval operations and the development of defense infrastructure in the region, while:

- tasks to ensure Russia’s security and defense and economic problems are solved in parallel, but with a single production, transport and social infrastructure, built by attracting major long-term nongovernmental investments;

- the equity participation of the State is determined by taking into account the real possibilities for budget financing, and its volume can be adjusted rapidly;

d) will ensure:

- attraction of large investments to other programs of Southern Russia;

- safety of shipping;

- independent production of own electricity and heat with latest technologies;

- guaranteed jobs for local people and residents of the region as a whole.

Implementation of the unprecedented YACONTO Integrated Program will create conditions necessary for:

- a significant development of industry and agriculture of the Krasnodar

Territory and Russian economy as a whole through the development and drastic increase in efficiency of rail, road, pipeline and water transportation;

- a significant increase in Russia's gross domestic product due to revenues coming from production and sale of finished products rather than crude oil, gas, timber and other raw materials;

- major long-term private investments in mass recreation and wellness, sports and tourism industry of the Black Sea coast of Krasnodar Territory, which will provide a dramatic increase in the inflow of tourists, and therefore revenue;

- improvement of the socio-economic and political situation in the North Caucasus, strengthening the defense and security of Russia in the Azov-Black Sea basin.

The activities of the "YACONTO Port" and the TNB with their common production, transport and social infrastructure will provide stable large tax revenues to the local, territorial and federal budget.

III. CONCLUSIONS

1. On the expediency of providing administrative support to the YACONTO Integrated Program on federal level.

In order to implement the nongovernmental YACONTO Integrated investment Program it is expedient to provide administrative support on the federal level and approve it by a Decree of the Russian President and Supreme Commander of the Armed Forces V.V. Putin.

In order to expedite the passage of the organizational and preparatory phase, providing rationale for the effectiveness of design and implementation of the Integrated Program, YACONTO LLC uses non-traditional technology, where the Integrated Program is first offered to the government for their discussion; they can make proposals taking into account the needs and interests of their departments . After obtaining the approval and support of the refined and supplemented Integrated Program from the President and the Russian Government, the stakeholders will be able to begin funding the implementation of the Integrated Program without fear of bureaucratic obstacles and criminal organizations. This technology enables public authorities to quickly solve their tasks without attracting budget funds with the help of investors, who take the entire risk and responsibility for the effectiveness of investments.

In order for YACONTO LLC to be able to invest large raised funds in the

development of a feasibility study of projects included in a single Integrated program, the state should support it at the federal level, ensuring the protection of intellectual property rights of YACONTO LLC to the Integrated program and ensuring right to its implementation.

2. On the expediency of construction of a new Naval Base while establishing a basing system for the Black Sea fleet on Russian territory.

The implementation of the YACONTO Integrated Program is expedient, as it is essential for the defense and security of Russia and provides the opportunity to create a new main base for the Russian Black Sea Fleet and its infrastructure by attracting large private investment.

TNB will join the unified basing system of the Russian Black Sea Fleet and, from the the geopolitical, operational and strategic perspective will be an important outpost of Russia in the Black Sea area, and subsequently in the Mediterranean area. When building a system of stationing points for the Black Sea Fleet and implementing the YACONTO Integrated Program it is expedient to take into account the suggestions of this Analytical Note, as set out in the “Operative and strategic evaluation of the possible stationing points of the Black Sea Fleet forces on Russian territory”.

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