

**Viktor Petrovich, on behalf of Adam Smith Institute, thank you for taking the time to speak with us today!**

We are delighted that you have agreed to speak at our 2<sup>nd</sup> **Annual Forum “Agribusiness in Ukraine” in March 2010**. Today, we would like to gain your views on a couple of key issues and share it with our audience before the Forum:

**1. Question:** In your opinion what are the **key challenges and issues** affecting global agrarian markets today? And what are the main challenges for Ukrainian agrarian companies?

**Answer:** There are fundamental factors which contribute to the development of the agricultural sector in Ukraine and the world as a whole. The problems of **food shortages** and the food crisis that has been much written about in recent years have not lost their relevance. **Population growth and improving living standards** are stimulating consumption. On the other hand, there are **natural barriers** to the dynamic development of agricultural production linked to **financial, technological, climatic, and resource factors**. Nor should one forget **the role of bioenergy**, which is made from agricultural products, at a time of increasing prices for fossil fuels.

According to the forecasts of international organizations and analytical agencies, in the medium to long-term, **the imbalance of supply and demand for agricultural products** will be one of the key issues which will need to be addressed by the concerted efforts of **governments, business and science**. In this regard, it is important to note several key points. The first is the potentially **strong position of the Ukrainian agricultural sector** in international food markets. Our country has **many competitive advantages** that are very important in an increasingly globalized world. Secondly, we must understand that the future of agricultural production, not only in Ukraine but throughout the world, will involve effective **high-tech farms**, the extensive use of **economies of scale**, and the principles of **vertical integration and synergy**. Such opportunities are only open to large agribusiness holdings, which are now actively developing in **Asia, the CIS and Latin America**. A tendency towards **the consolidation of agricultural enterprises can also be observed in the EU and the US**.

**2. Question:** In terms of the Ukrainian Agrarian sector, when do you think we will have a **turning point** away from the economic recession towards recovery? How will the **elections** influence the regulatory framework?

**Answer:** It is important to note that in the past year, agriculture, in contrast to other sectors of the Ukrainian economy, **has performed quite well**. Until last Autumn, against a backdrop of general decline in the level of economic and industrial activity in our country, the agricultural sector was actually showing **signs of growth**. The main reasons for this were our **strong export position** and **stable demand** for food products.

The stability of agricultural production in the face of economic volatility is further to our advantage and an important signal to potential investors in this sector. **I don't see any significant risks to the sector associated with the results of the election going one way or the other, either.**

Certainly, **political stability is very important** for any business, because it affects the cost of financial resources, the willingness of investors and large international companies to invest in new business projects in Ukraine.

In addition, we should be aware that over the past year, in conditions of **decreasing state support and credit restrictions**, the sector has been able to operate, in the main, **on its own resources**. In order to sustain development going forward, Ukrainian agriculture needs the rules of the game to be stable, and predictability in **regulatory matters, taxation and subsidies**.

Question 3: In your opinion are there **more positive or negative consequences** as of today after Ukraine **WTO accession**? What are the main future challenges and opportunities for agrarian companies in Ukraine?

**Answer:** I would divide the consequences of Ukraine's **accession to the WTO into short and long term ones**. In the short term, in **opening up domestic markets** we are exposing domestic producers to a number of risks. Increased competition from foreign companies will put many businesses into a fairly **difficult situation**. They **should be allowed to adapt**, to raise the quality of their products, and get used to working in a tough competitive environment.

At the same time, **many of the benefits of WTO membership will only be felt over time** and will allow domestic enterprises, including farmers, to fully exploit the competitive advantages which we discussed earlier.

**Question 4:** During our 2<sup>nd</sup> Forum we are going to have an **Interactive discussion with Industry Leaders: State and Business – effective cooperation**. This panel will comprise decision makers from the Government authoritative bodies and leaders of agrarian holdings to discuss the effectiveness of government measures on contributing to the industry's development. In your view, should you join this discussion, what would be **the 3 most important questions** to ask?

**Answer:**

- The **combined efforts of government and business** to develop and implement national target programs in the agricultural sector.
- Increasing the role of **industry associations in the formulation of public policy**, improvement of the **legislative and regulatory framework, taxation conditions** and the competitive environment, and **protection of the interests of domestic producers and consumers**
- The updating of **land legislation**, in particular relating to the **leasing of land for agriculture**, the creation of optimal conditions for agricultural producers, and the **protection of land-owners' rights**.

**Question 5:** And the last question. What are **Astarta's plans** for the next 12 months?

**Answer:** First of all, last year we were able to solve some important problems relating to the further strategic development of our company. In particular, **we have restructured our holding company**, creating five large territorial production units. With the help of **consolidation**, we have been able to **improve manageability, optimize the use of production assets, and significantly reduce administrative costs**. We also continued to **expand the amount of arable land we lease**, secured **necessary investment**, increased the level of **vertical integration of sugar production** and significantly **reduced energy consumption in sugar factories** by means of modernization. In addition, we paid a lot of attention to **the improvement of our accounting and development modelling systems**. All of this allows us to count on solid financial results in 2009 and gives us good prospects for the future.

In 2010, we **plan to further organic growth** in our agricultural production holdings, to **increase output** in our main sectors, and to increase our **energy-effectiveness**. In previous years we have carried out a lot of work with our **foreign partners** on new projects in the field of **biofuels and biotechnology**. I believe that our company is in an excellent position to bring these to fruition, and believe that our efforts will enable us to move in new directions.