

Poppy Negotiations

The negotiating committees have met with Sun Pharma and Tas Alkaloids in rapid succession and prior to Easter. The outcomes of the discussions are both stark and varied in each case.

As a result of the 2017 PGT delegation to the UN's INCB conference there is no doubt that the times are challenging for Narcotic Raw Material producers, right through to the dosage makers. The World market for opiate painkillers is in significant oversupply. Based on our reading of the UN material and face to face discussions with industry participants, the situation shows no early sign of returning to a situation of demand growth or supply reduction. So in essence, a fair observation is that we are growing material for a market that is saturated.

There is a state of flux, with opium disappearing from the system. Notably, the English poppy crop is no more. The Scottish based producer has culled its entire growing operations, despite attempts for nearly two decades to crack successful poppy growing to get material "at low cost".

The US is in a self-described "ongoing crisis". The 2016 INCB report at paragraph 446 indicates that in 2014 some 18,000 Americans died from prescription opioid pain reliever overdose and 10,000 from heroin overdose. 47,000 Americans died from drug overdose overall, 128 people per day. Imagine if that many people were dying from terrorism. The opioid pain relievers include synthetic drugs. Synthetic drugs may be illegally made.

An opioid action plan from February 2016 by the Food and Drug Administration (FDA) has many objectives, abuse-deterrent formulations being an all-out focus. Abuse deterrents will be a huge advance in preventing overdose. At the same time, anti-addiction efforts are also a massive commercial focus. It is clear to us that preventing abuse and making pain relievers non-addictive is the Holy Grail of this sector. Other indications are that continued tightening on prescriptions, medication packaging and the like all continue. These measures are designed to restrict demand to genuine pain relief only and for shorter times.

Sun Pharma

With the new ownership now very clearly in control, our meeting with Sun Pharma was as cordial but robust and in-depth as in years gone by. Sun Pharma has paid tribute to the skill of its grower base. Despite a very wet spring, the harvest was in the majority of cases outstanding with record alkaloids

obtained. Sun Pharma has aggressively cut its own cloth, closing the Melbourne Head Office, reducing staff and changing systems in Port Fairy as well as in Tasmania, retained all its major customers and won the Indian morphine tender. We were told that Sun has advanced in its integration of its NRM operations into Sun Pharma at a global level, we assume as it moves towards vertical integration into final products.

Sun Pharma is delighted with the progress of its Plant Growth Regulator system and this year 75% of its crops were covered with seed reduction and alkaloid increase as the outcome. The PGR system helped Sun Pharma achieve an average of 40 kg per ha for the first time, a dramatic jump in productivity. On top of these gains, the harvest itself went very smoothly. As one Sun rep said, the phone did not ring with any harvest hassles.

The technical measure of the PGR program was not disclosed, in that while the average kilos per hectare was disclosed, the seed to straw ratio that was achieved overall has been kept secret. Be aware that the end goal of PGR is to remove seed altogether from crops. Seed is now regarded as a waste by-product. While poppy seed was once seen as a useful product saleable on its own, that is no longer the Sun Pharma position.

There are positives and negatives for 2017/2018

- ✓ Area up 70%
- ✓ Additional plantings made up of 65% Thebaine and balance Noscapine
- ✓ No moddus required as new varieties produce less morphine contaminant
- ✓ No change to contract conditions including crop sowing, harvest and Sun Pharma employee supervisions, payment on standard 30 day terms and advance payments
- ✗ No price changes;
- ✗ No new Thebaine variety;
- ✗ New noscapine variety with increased purity of noscapine but at lower yield (weight) and assay. The Scale Price is increased solely on a technical basis based on 2 years of trials to achieve parity with the 2017 prices per ha. Any increase that you see is not an increase in real terms and Sun Pharma made very clear its intention to have no actual price increase for material as it seeks to drive down costs of material per kilogram;
- ✗ Morphine to be subject to PGR program;
- ✗ No new Long Term Contracts.

Tasmanian Alkaloids

The news from Tasmanian Alkaloids is better than last for the opportunity to grow but a big step backwards for the actual return on any crop. Now under new ownership, there is no doubt TasAlk has been getting its house in order, for instance with lower inventory and a 5 day week in the factory.

It has shed some 21 contractors and is entering into a new Enterprise agreement.

We are assured that R and D spending on new varieties has in fact increased, aimed at increased robustness and higher assays.

Tas Alk received more crop in 2017 than it anticipated and crops were much better than budgeted for. Despite that, required area is to increase by well over 50%, into the 5000 ha for next season.

With that good 2017 harvest result and the world market as it is, it is our view that the projected payout for 2018 will be not far from 2009 actual figures with 12 per cent price cuts on

all varieties. Varieties will also vary, as TA will be growing roughly 40% thebaine, 40% codeine and 20% eve.

While TA speaks optimistically about further future area increase, the projected returns combined with years of cuts then stagnation are a significant barrier to long term investment in poppy production.

The evidence is clear, poppies are not producing the return that they once did in real terms. Sadly the payouts are headed in the wrong direction and thus growers must carefully take into account the financial risks of growing a crop that may not meet expectations from only a few years ago.

Philip Loane
President

SAVE THE DATE – 17th June 2017

Retirement Function for Keith Rice

We wish to advise that we will be holding a farewell/retirement function for Keith Rice on Saturday evening 17th June 2017 at the Hotel Grand Chancellor, Launceston. More details to come.

Top up your super and get a government boost

Did you know you may be eligible to receive a contribution to your superannuation account from the government, simply by making personal (after-tax) contributions to your super?

That's right! The government co-contribution scheme provides an incentive for those on low and middle incomes to contribute to their super accounts and get an extra boost from the government.

How does it work?

If your total assessable income for the 2016/17 financial year is less than \$51,021 and you make one or more after-tax contributions to your super account through the year, you may receive a tax-free co-contribution of up to \$500 to your super.

The amount you receive will depend on a number of factors, including your assessable income for the financial year and the amount you contribute to your super fund. Based on these and other factors, government contributions are allocated on a sliding scale ranging from \$20 and \$500. Visit the Australian Taxation Office's (ATO) website ato.gov.au/super for full details of the co-contribution scheme and to check whether you meet the eligibility criteria.

The best thing is, it's super easy! You don't need to apply for the co-contribution, just make one or more contributions to your super this financial year.

When you consider that we are living longer than ever before, there is a risk some of us might outlive our retirement savings. Hence, contributing to your super on a regular basis is one of the most important things you can do to set yourself up for a successful retirement.

Things to remember

Make sure your super fund has your tax file number, then lodge your tax return in the usual manner and the ATO will make the applicable contribution to your super account. Plus, the government co-contribution is not taxed when it is paid into your account.

Co-contribution at a glance

- Available if your 2016/17 assessable income is below and \$51,021
- Make one or more contributions to your super account during the financial year
- Potential to receive up to \$500 extra money in your super from the government
- An easy way to give your super a boost!

Get cracking!

With the end of the financial year fast approaching, there's no time like the present to contribute to your super and take advantage of a government co-contribution. Your contributions must reach your super fund before 30 June 2017, so get cracking now. Your future self will thank you!

Want to know more? Get in touch with Prime Super – call **1800 675 839** or visit **primesuper.com.au**.

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