

In a Capsule News

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Welcome to the second May 2020 edition of *In A Capsule News!*

Contract Negotiations for season 20/21

It is no secret that our industry has faced and continues to face some challenging market conditions.

The reasons are varied and complex and it is against this understanding that we entered into the season 20/21 contract negotiations.

Tasmanian Alkaloids

We met with TasAlk on Friday 15th May 2020. We were advised of details surrounding the strategic restructure currently being undertaken at their Westbury facility.

TasAlk conveyed that a steady global reduction in opioid demand over recent years combined with future market demand signals has resulted in a decision by TasAlk to switch its Alkaloid Raw Material business from a 24hr-7day manufacturing roster to a permanent 24hr-5 day operation.

This modified operating model has precipitated a restructuring across the company and an associated reduction of the workforce. All divisions of the operation have been scrutinised and staff reductions are across the entire business. Field operations will lose the equivalent of three full time positions.

An integral part of our discussions revolved around the global market for opiate based pain management medicines. The Alkaloid raw material business is a highly competitive, price sensitive, global marketplace. On a "strictly confidential" basis, TasAlk shared with us some sobering details of the price sensitivity trends over the last five years for their products. TasAlk highlighted that despite these pricing pressures, they have endeavoured to maintain payments per hectare to Growers throughout this period.

These discussions confirmed our understanding of the global market, particularly in the US where overuse of prescription opioids have seen very strong legislative action restricting imports of narcotic raw material and placing strong limitations of the medical profession on how, when, for how long and to whom they can prescribe these pain management medicines.

Addressing the declining demand situation, and the implementation of a strategic review and restructure of the business will ensure TasAlk remains a leading supplier of opiate based pain management medicines to the global pharmaceutical industry.

Contract negotiations 20/21

Area

After a 35% increase in area last season, TasAlk will be reducing its total area requirement this year by approximately 40%. TasAlk is hopeful of some additional orders being confirmed in the next few weeks. This could see the reduction being approximately 25% rather than 40%.

Agri-Fos – Phosphorous Acid

Europe has established maximum residue limits on numerous products entering the European Union, including poppy seed. Poppy seed customers are becoming more rigorous in testing for a wide number of fungicides and pesticides, including phosphonic acid, a degradant of phosphorous acid. The maximum residue limit of phosphonic acid in poppy seeds is extremely low at 2 ppm.

European poppy seed sales are very important to the TasAlk's business model. It is therefore imperative that their poppy seed is under the maximum residue limit for phosphonic acid and able to be sold to European customers. With this upper most in their mind, TasAlk will no longer receive crop that has been sprayed with Agri-Fos. At the time of signing a contract with TasAlk, Growers will be asked to sign a statutory declaration stating that they will not use Agri-Fos on their poppy crop. Random testing of poppy crops for Agri-Fos will also be undertaken.

**Poppies:
A Proud Tasmanian Industry**

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TasAlk are recommending an alternative spray program that uses fungicides registered for the control of both forms of mildew, while excluding Agri-Fos. They have determined that a comprehensive preventative spray regime may cost the grower approximately \$90 per hectare more. To address this additional cost TasAlk will pay growers \$100 per hectare in addition to the normal payment scale.

Payment scale

- The payment scale for all poppy crop varieties will remain the same as they were for the 19/20 season
- There will be new varieties for Eve and Noscapine which are expected to yield up to 4% (Eve) and 10% (Noscapine) higher assays than previous varieties.

Contracts

This coming season TasAlk will only be offering contracts based on the crop pre-payment scheme trialled last season. The payment schedule is structured as follows:

Growers will receive the following payments before harvest:

- 2 x \$550/Ha to assist with crop treatment costs, paid between October and December.
- Monthly payments, based on crop type budget rates per hectare, and commencing in the third week of December for crops sown before 1st September, or in the third week of January for crops sown on or after 1st September.
- A non-recoverable \$100/Ha payable in the third week of November in compensation for eliminating Agri-Fos (or other phosphorous acid treatments) from spray regimes.

Payments after harvest:

- Monthly payments, calculated from the Total Price of the Threshed Bulk Crop, less any advances + prepayments to date, and divided by the months remaining to May.

We know the decisions taken by TasAlk management of recent times would have been enormously difficult. It is however, a commercial reality that to remain viable and vibrant in a highly competitive global market, strategic decisions are imperative.

SUN PHARMA

We met with Sun Pharma on Wednesday 13th May 2020 and were advised that while it is difficult times for business, Sun Pharma remains very much committed to the Tasmanian poppy industry and continues to invest substantial capital in the business particularly in respect of plant research and development.

We were advised that Sun Pharma was very disappointed with their non plant growth regulated (PGR) morphine crop last season, however they were above budgeted yield, assay and dollars per hectare across all other crop types i.e codeine, noscapine and thebaine/oripavine. The average dollars per hectare for these crop types being in excess of \$5200.00 per ha.

Contract arrangements for 20/21

The total growing area will be increased by approximately 10%.

Morphine

- Morphine will be a seeded crop i.e. non PGR;
- Input cost savings of \$100/Ha from removal of two sprays associated with PGR program;
- Currently the minimum payment is \$1000 per dry tonne up to 1.5% assay and as per the payment scale thereon;
- The new payment scale is a novel one, with minimum payment of \$2500 per dry tonne up to 3.1% assay and a 15% increase to the payment scale at all points of the payment scale thereon. The payment scale is therefore fixed to 3.1% assay and reverts to a traditional linear scale at assay points above 3.1%;
- For example, if an assumed weight of 1.6 dry tonnes per hectare is achieved and the assay is 3.1% or below then the morphine minimum payment will be \$4000 per hectare;
- At 1.5% assay this represents an increase of 138% when compared to the 19/20 payment scale;
- At 2.0% assay the increase will be 79% when compared to the 19/20 payment scale;
- At 2.5% assay the increase will be 43% when compared to the 19/20 payment scale;
- At 3.0% assay the increase will be 19% when compared to the 19/20 payment scale;
- At 3.5% assay the increase will be 15% when compared to the 19/20 payment scale;
- As has been the case with all payment scales offered over the years from Sun Pharma, a lower weight will see a lower payout as payment is based on \$ per dry tonne of crop.

This is a significant increase to the payment scale for morphine and recognises grower concerns with the poor return experienced last season.

We commend Sun Pharma for the manner in which they addressed this very concerning situation.

Thebaine/Oripavine, Noscapine and Codeine

Sun Pharma advised they had improved varieties for each of the above crop types and expected productivity improvement for each variety of about 5% in kilograms of active material per hectare.

They said that, in view of the current challenging market conditions and average returns for 19/20 being in excess of \$5200 for each variety, they believed these crops were competitive with alternative options.

With that in mind they did not propose to apply any increase to the 19/20 PGR contract scale for these crops.

Advance Payment

By December 15th each year, Sun Pharma currently pays growers an amount of either \$800 or \$0 per hectare (Advance "Risk Sharing" Payment) determined by paddock assessments made by company field officers against a defined payment criteria. From this year onwards, the company is looking to incentivise amongst its grower base the completion of pre-planting and in-crop development soil tests, and has proposed an optional increase to its Advance Payment rate in order to achieve this.

A proposal was put to the PGT that the advance payment be:

- Raised to \$1000/ha for those growers who complete pre-planting soil nutrient analysis and a nitrate test at the ground cover/early run-up poppy growth stage;
- Left at \$800/ha for all remaining crops which are of suitable quality at the time of assessment.

Sun Pharma has proposed this amendment to:

- Reward growers who engage in the use of crop management tools to improve crop performance;
- Allow the company to build commercial datasets alongside R&D to understand macronutrient, micronutrient and soil fertility parameters correlated with high performing crops.

* * * * *

Whilst we acknowledge the prevailing global market situation and as such feel we have little choice but to support the Tas Alk and Sun Pharma contract arrangements for the 20/21 season we went to great lengths to impress upon them the fact that farmers cannot be expected to grow crops year after year without increases to the contract scale of payments, put simply, farmers operating costs continue to increase at an alarming rate which is simply unsustainable.

The only way poppy growers can meet these ever increasing costs is to receive more for the product that they grow.

Farm Hygiene – Contaminated Machinery

Members have raised concerns regarding contractors coming onto their property with machinery/trucks that have been inadequately cleaned. They bring soil

and paddock matter from one farm which in turn contaminates the next farm they visit. Just like COVID 19 face masks and social distancing we need to stop the spread of weeds and other contaminated matter from one farm to another.

Make sure contractors and others do not bring unwanted/contaminated soil and farm matter to your farm and just as important make sure they clean machinery/trucks before they leave your farm.

Elections – Committee of Management 20/21

Please find attached a nomination form for election to the 20/21 Committee of Management of Poppy Growers Tasmania Inc.

The Committee of Management has 15 members drawn from all growing areas charged with overseeing the day to day operations of the organisation and the interaction between the growers and poppy companies, governing bodies at a State, National and International level.

Annual General Meeting

The Annual General Meeting of Poppy Growers Tasmania Inc will be held on Thursday 18th June 2020 at 1.00 pm.

Out of an abundance of caution considering the extraordinary environment of COVID 19 the AGM will be held by **dial-in teleconference**.

We invite members to join the AGM **via teleconference**.

If you would like to join the AGM **via teleconference**, please let us know and we will forward to you the dial-in details and instructions.

Hoping you and your family remain safe and healthy and we wish each and every grower a very successful 20/21 season.

Please do not hesitate to contact PGT on 0418 133 234 should you require explanation or further details regarding the above or any other poppy matter that you feel may require attention

Best regards,

Philip Leane
President

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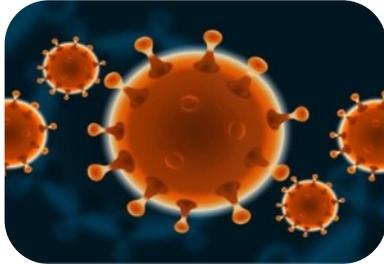
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COVID-19 Guidance Information for Farmers

Agricultural Contractor/Agronomist/Field Officer/Consultant/Authorised Visitors

This guidance will help you determine if it is safe for a contractor, field officer, agronomist, consultant or authorised visitor to enter your farm.



Before contractor arrives:

Consider if the work could be done by phone or online rather than on farm.

- ✓ Advise the person proposing a visit, that they are required to make direct contact with you prior to entering the farm to ensure you have an opportunity to consider and manage any COVID-19 risks.
- ✓ Determine the person's health status. Ask – do you feel well? Do you or anyone in your workplace or household have any symptoms of illness or any reason to suspect that you have been in contact with a COVID-19 infected person?

While contractor is on farm:

- ✓ Determine the contractor/visitor's health status before they enter the farm. Ask them if there has been any change since you arranged the visit prior to them entering the property.
- ✓ The contractor/visitor must keep a record of the date and time of the visit, and who they came in contact with during the visit.
- ✓ The farmer should keep a record of people entering the farm.
- ✓ Follow COVID-19 safe distancing, handwashing and hygiene, and workplace cleaning advice.
- ✓ The farmer should designate the specific work area that the person is permitted to access and any potential paddock risks.
- ✓ The contractor/visitor should advise the farmer when their work is completed, and that they are leaving the farm.
- ✓ The contractor/visitor should be informed by the farmer of any possible exposure to a confirmed case of COVID-19 on the farm.

Note: this information should be emailed or texted directly to the person proposing a visit prior to the visit occurring, reinforced at the time of entry to the farm and recorded.

All farm workplaces must comply with new COVID-19 Safe Workplaces Minimum Standards. WorkSafe Tasmania has developed agricultural guidelines, a checklist and COVID-19 Safety Plan to help you demonstrate this.

For more information: WorkSafe Tasmania: www.worksafe.tas.gov.au; State Government COVID19 www.coronavirus.tas.gov.au; Help for Agricultural Businesses www.dpipwe.tas.gov.au/agriculture-covid

**Contact the Safe Farming Tasmania program: Phill John, Senior Safety Consultant
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