

PGF position on hemp sector investments

What does the existing market look like?

Currently the hemp market is limited by the strict regulations placed on growing it by the Ministry of Health, as hemp sits at the intersection of medicine and food. However with legislation change making it legal to sell hemp as food, s 9(2)(g)(i)

Internationally and nationally, demand for hemp as a food and a fibre is growing, but nationally the growth in production is currently constrained by this regulation.

What is the sector's growth potential?

The growth potential is high for the sector. Internationally the demand for hemp as a food and fibre product is increasing; however there is some concern it could be a 'gold rush' bubble which may not lead to the predicted growth. Experts have noted the potential for hemp planting to triple, however "a lot of market research needs to be finalised before there is a significant increase in planting."

Also there is a risk that without proper market research, hemp products may meet the same fate as honey production in New Zealand, which is now facing a glut on the market and reduced yields due to over production. This could present an investment risk to the PGF if the fund invests in projects that have done poor market research.

What other government support is available to applicants?

The MPI Sustainable Food and Fibre Futures Fund supports innovative food and fibre production projects that will create more value from these industries. Hemp projects are eligible for funding which can exceed \$5 million for long-term partnerships between firms and government. Add info on if hemp projects have been received/funded- currently with MPI

What other government initiatives should the application be aware of?

The Zero Carbon Act and the Emissions Trading Scheme reform will mean a higher carbon price, which could incentivise farmers to convert land to hemp production due to its low emissions.

What sorts of opportunities are there to create more productive jobs, or a larger number of jobs?

The jobs are more or less equivalent to regular farming jobs on arable land. However due to the use of combine harvesters to harvest hemp products, these jobs tend to be higher-paid with lower health and safety risks. There is also a sizable opportunity in hemp value-add processing, moving up the value chain to create better paid jobs and greater productivity.

What existing comparative advantages would investment in the sector connect to?

Hemp requires good quality arable land that is likely already growing other crops. Marginal or poorly drained, stony soils are not suitable. Some crops in Canterbury have been grown

without irrigation, however production normally requires it. There are industry claims the crop can be grown pesticide-free in New Zealand while there are cases of pesticide-free production, it is rare and normally not on a commercial scale.

What are the necessary prerequisites for success in the sector (e.g. infrastructure, access to natural resources)?

Mainly conventional equipment can be used for harvest but certain infrastructure must be specially imported and importers face difficulties due to the high level of regulation on hemp processing. Industry growth is constrained by the legal parameters of the crop which are not set to be relaxed in the short to medium term.

What investments with relevance to the sector as a whole would be most valuable?

The best investments for the hemp industry would be with well-established firms which have the capacity to expand. This is because it is still an emerging industry in New Zealand so the investment most likely to result in increased jobs and productivity potential is investment in already profitable firms.

To what extent does or could the sector benefit the wider community?

The sector has the opportunity to create decent jobs in the regions. Hemp is also a very high-nutrient product, increased consumption and availability of hemp products could have wider health benefits. Hemp fibre traps carbon as the plant grows and requires little water to grow comparative to cotton, as such it is a more sustainable fibre, creating less environmental damage and contributing less to climate change.

What sorts of, and quality of, jobs does the sector provide?

In hemp farming, jobs are higher-paid, lower health and safety risk. The hemp processing sector would also have jobs of a similar kind.

What is the sector's environmental impact?

Hemp requires less water to grow than other crops that are popular in New Zealand and the plant is a carbon sink if the fibre is processed in to a product. Hemp can be grown without pesticides if well managed by experienced crop managers, which requires fairly rare expertise.

What existing or potential Māori involvement in the sector is there?

s 9(2)(b)(ii)

Draft Policy Position

The Provincial Growth Fund (PGF) will consider investing in hemp projects if they meet the threshold for investment outlined in the sector position paper. If the project meets these requirements, applicants must also be able to answer the following questions:

- Do you have the required licenses to grow and/or process hemp? Do you have legal access to hemp seeds and/or plants to begin production?
- Do you have experience in growing hemp or similar crops? What kind of conditions do you have experience growing these crops in? What irrigation, pesticide and crop density levels do you have experience with?
- Do you have or can you easily source all the infrastructure needed for harvest and/or processing of hemp?
- Have you applied to the MPI Sustainable Food and Fibre Futures fund? If not, why not? If so, why have you applied to the PGF?

If the applicant can answer all these questions sufficiently, as well as meet the sector criteria, then the project may be considered for PGF investment. The hemp industry is growing and internationally, demand for hemp products is rising. The lower than usual environmental impact of growing hemp means it can contribute to government climate change and environmental goals. An increase in hemp production will also lead to more regional jobs.

As a general rule, hemp investment has the potential to align with PGF objectives and sector investment principles, in particular with investment principle two: investment with a stronger focus on increasing the volume of firm activities and associated jobs numbers in a region. Investment could improve the output of New Zealand's regions in terms of:

- Increasing the volume of firm activities and associated jobs in a region
- Investing in an industry New Zealand's regions have a comparative advantage in
- Providing better quality jobs in the regions

However, the sector also faces significant challenges. The PDU and decision makers need to be aware of:

- The legislative requirements facing the industry, and ensure the applicants work is within the legal framework
- The lack of market research and industry coordination in the hemp industry. Applicants will need to have a bankable business case, and have given consideration to their place in the value chain.
- The limited amount of skilled hemp growers in New Zealand, applicants will need to demonstrate they have the necessary skills or are linked in with industry experts.

Also, projects will need to demonstrate additionality. As hemp is a growth industry, many players are looking to invest in the industry; the PGF will not invest where the project will go ahead regardless of PGF investment.