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KPMG AGRIBUSINESS
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AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

3 August 2016

Organisations referenced in this week's Field Notes include:

ANZ Bank	Ministry for Primary Industries
Apiculture New Zealand	Murray Goulburn
ASB	New South Wales Government
Asure Quality	Open Country Dairy
Bayleys	Overseas Investment Office
Bega Cheese	PGG Wrightson
China Animal Husbandry	Restaurant and Catering Australia
Chobani	Rosvall Sawmill
Delegat Group	Shearing Sports New Zealand
Department of Conservation	Southland District Council
Down Cow Limited	Soylent
European Union	SPCA
Far North Environment Protection Society	Spring Sheep Milk
Farmwatch	Tails.com
Federated Farmers	Tasman District Council
Fonterra Co-operative Group	Tatua Dairy Company
Food and Drugs Administration	Walmart
Friends of the Earth	Westland Milk Products
Institute for Stem Cell Biology and Regenerative Medicine	Whole Foods Market
Livestock Improvement Corporation	Wood Processors and Manufacturers Association
Live Stock Wealth	Woolworths
Mataura Valley Milk	

This week's headlines

Dairy	China Animal Husbandry to take 72% stake in Mataura Valley Milk [28 July/ National Business Review]
Biosecurity	Pea growers may be compensated for ban [27 July/ Radio NZ Rural]
Farmers and producers	Farmer confidence improves slightly in July [27 July/ NZ Herald]
Wool	NZer Matt Smith breaks world shearing record [27 July/ Radio NZ Rural]
Rural infrastructure	Fonterra & LIC Investigating Tech Solutions [28 July/ Scoop Business]

Viticulture

Yealands converting sheep farm to wine [1 August/ Farmers Weekly] Vintner, Peter Yealands has bought the 261 hectare Straights View farm for \$4.35 million and plans to convert it to a vineyard. Mr Yealands also bought the farm's sheep flock which would be sold off as the farm was planted in grapes. Mr Yealands said he expected to have about 70 hectares of suitable land which would be planted over the next year and should provide the first grapes for wine in 2020. Mr Yealands added that most of the planting would be in sauvignon blanc, but there would also be smaller areas of pinot noir, pinot gris and chardonnay. PGG Wrightson Agent, Greg Lyons said Marlborough's sheep and beef properties with conversion potential had progressively been sold over the past decade.

NBR Rich List shows wine wealth climbed in a year of record New Zealand wine exports [1 August/ Business Day] Wealthy wine company owners have moved up the National Business Review Rich List after a year in which wine exports increased by 10 percent to a record \$1.57 billion. The Todd family finished highest among wine company owners with a 340 million increase in wealth to \$3.3 billion, after selling their Marlborough vineyard land and Winegrowers of Ara brand earlier this year. Delegat Group Majority Shareholders, Jim and Rosemary Delegat finished as the second wealthiest in the industry after their worth increased by \$100 million to \$450 million.

Forestry

Swamp kauri case continues in Auckland High Court [26 July/ Business Day] The Far North Environmental Protection Society has taken the Ministry for Primary Industries to court, claiming that it was not enforcing laws which banned the export of unfinished swamp kauri. Government Lawyer, Jessica Gorman argued that if changes needed to be made to enforce the rules, it should be left to Parliament rather than judges. Ms Gorman added that opinions, such as that of a customs officer exercising their discretion over swamp kauri, could not be ruled upon in courts.

Call for forest industry review [1 August/ Farmers Weekly] Rosvall Sawmill Managing Director, Mark Hansen said the harvesting rate of 4.6 million cubic metres of logs a year would be cut in half within 10 years and is unlikely to recover for another 10 or 15 years. Mr Hansen explained that this was due to the current age of trees and the lack of replanting in recent years. He added that the lack of replanting was a result of climate change, the Kyoto protocol, carbon pricing, and Government indecision which created uncertainty within the industry. The Wood Processors and Manufacturers Association recently met with government officials to ask for forests to be classed as a national strategic asset. The association argued that regulations were required to stop trees as young as 17 or 18 years being cut down and exported to China.

Fishing and aquaculture

Sustainable Seas Science Challenge studies collapse of scallop industry [29 July/ Business Day: NZ Farmer] The collapse of Nelson's scallop industry through exploitation would be studied by scientists as part of the Sustainable Seas National Science Challenge to find out how marine resources could be better managed. Sustainable Seas Director, Julie Hall said the study would not only look at environmental and biological sciences, but also associated policy, law, industry and social aspects. Tasman District Council Environment and Planning Manager, Dennis Bush-King said the process would give the council more information on what it had to manage in the marine area.

Dairy

China Animal Husbandry to take 72% stake in Matura Valley Milk [28 July/ National Business Review] China Animal Husbandry has agreed to take a 72 percent stake in Matura Valley Milk in exchange for funding construction of a \$200 million milk powder manufacturing plant in Gore. Work on the plant would start in October and create 100 new jobs when it was completed. Matura Director, Aaron Moody said China Animal Husbandry Group was state owned and would provide capital as well as invaluable distribution channels and knowledge of the Chinese market. The plant would produce infant formula, UHT cream and some skim milk powder, but would focus on the international infant formula market.

Open Country milk payout under pressure [28 July/ Business Day: NZ Farmer] Open Country Dairy Chairman, Laurie Margrain said the company's new season milk price guidance remained unchanged at between \$4.25 and \$4.45 per kilogram of milk solids, but the outlook was for downward pressure rather than an improvement. Mr Margrain explained that the downward pressure would come from the strong New Zealand dollar and the continuing imbalance between high international milk production and weak demand. Fonterra was expected to announce an update on its 2016-17 season opening forecast of \$4.25 per kilogram of milk solids in early August.

Westland appoints CEO [29 July/ Dairy News] Westland Milk Products has announced the appointment of Toni Brendish as its new chief executive officer. Westland Chairman, Matt O'Regan said Ms Brendish had extensive leadership experience in the international food and dairy industries, including a role as vice-president of DKSH in Thailand. Mr O'Regan added that Ms Brendish's familiarity with the manufacturing, supply chain and sales and marketing of value added dairy products would be of immense value to the company. Ms Brendish would start at Westland on 5 September, replacing Rod Quin who stepped down from the role on 31 July after seven years with the company.

Tatua Dairy Company CEO, Paul McGilvary, Resignation [1 August/ Tatua Press Release] Tatua Dairy Company Chief Executive Officer, Paul McGilvary has announced his resignation after being with the company for more than eight years. Mr McGilvary has given six months notice to allow the company time to find a strong replacement. Mr McGilvary said it had been a privilege to lead such an iconic New Zealand company for the past eight years. Mr McGilvary added that he believed all companies needed a change at the top periodically to maintain the dynamism necessary for success to continue into the future.

Fonterra holds forecast payout at \$4.25 [1 August/ Radio New Zealand] Fonterra had announced that its forecast milk price for the 2016/17 season has been held at \$4.25 per kilogram milk solids with earnings per share also forecast to be in the range of 50 to 60 cents. Chairman, John Wilson, said holding the forecast at the initial level announced in May reflected the continuing uncertainty with the high New Zealand dollar and said the forecast remains the co-operative's best estimate. Mr Wilson acknowledged how tough the situation remains on farm, adding Fonterra would continue to provide updates during the season. He said the co-operative expects global supply and demand to come back into balance over the season as farmers globally produce less milk in response to lower prices, adding that Fonterra expected a 3% reduction in milk collection this season. Some analysts continue to predict an increase in prices, ASB continue to hold on to a \$6 price by the end of the season, while ANZ noted that farmers should remain focused on minimising costs as it was too early to be certain about the final ending price for the season.

Research and development

Sustainable Farming Fund open for applications [1 August/ Rural News] The Ministry for Primary Industries' 2017/28 funding round for its Sustainable Farming Fund opened on 1 August. Investment Programmes Director, Justine Gilliland said groups keen to tackle a shared problem or develop a new opportunity related to the primary industries were welcome to apply for the fund. A total of \$7 million was available to successful applicants to use towards their projects. Applications for funding would close on 8 September, with feedback on ideas and draft applications available until 18 August.

Biosecurity

Pea growers may be compensated for ban [27 July/ Radio NZ Rural] Pea growers could be compensated for the government's decision to put a two year ban on pea growing and distribution after a pea weevil was found in the Wairarapa region. The weevil was found in pea seeds grown on eight different Wairarapa properties and in three seed storage facilities in the region. Primary Industries Minister, Nathan Guy said the government was hopeful it could work with pea growers to get rid of the pest, despite not knowing how it got here. Mr Guy added that there could be some compensation that growers would need to apply for on a case by case basis. Ministry for Primary Industries Chief Operations Officer, Andrew Coleman said it was possible to completely get rid of the pest.

New threats to our farming emerging [1 August/ Farmers Weekly] Primary Industries Minister, Nathan Guy said the threat to New Zealand's biosecurity would only increase as more tourists visited and imports grew. Mr Guy explained that land use changes, such as the rapid conversion to dairy farming over the last five years, had significant implications for biosecurity including changes to the risk profiles of pests and diseases. Mr Guy added that New Zealand producers would also face greater market pressure to stop using chemical pest and disease treatments due to health, animal welfare and environmental concerns. Mr Guy noted that a risk would arise from increased trade volumes as ports would struggle to cope with rising freight and passenger numbers. Mr Guy said new technology would have a role in protecting New Zealand's borders with better connected people and information allowing risks to be quickly identified and acted on. A discussion document released by the ministry highlighted extra funding for detector dogs, x-ray machines, the introduction of a new border clearance levy, a new in-flight video for international passengers and the construction of an \$87 million bio-containment laboratory near Wellington.

International

Chobani Food Incubator aims to rev up next generation of mission-based food start-ups [26 July/ Dairy Reporter] Chobani is now accepting applications for its new Food Incubator Program to help entrepreneurs and small food companies grow their businesses. The program would last for six months from October 2016 and provide the selected two or three natural food start-ups with access to business advice from food industry experts including Chobani Chief Executive Officer, Hamdi Ulukaya. Chobani Corporate Communications Vice President, Michael Gonda said the organisation had already received applications from many great companies.

Drone makers check lie of the land [26 July/ South China Morning Post] A Guotai Junan Securities report showed the market for drones in China's agricultural industry was worth USD 4.5 billion per annum, with the government pushing to increase standardisation and automation in the sector. The industry was attracting businesses to invest in all aspects of the value chain from design and manufacturing to pilot training and leasing. The sector was flourishing in China due to the relatively small blocks of land that were suited to drones which only ran for 20 minutes at a time on batteries.

Dolly's clones ageing no differently to naturally-conceived sheep, study finds [26 July/ The Guardian] A group of scientists have found that cloned sheep appeared to age no differently than naturally conceived sheep, despite being made from adult tissue. The findings would help to alleviate concerns that cloned farm animals may be at a greater risk of diseases due to old age. However, the cloning process was still inefficient as it produced high numbers of miscarriages, birth defects and deaths among newborns. Last year the European parliament voted to ban the cloning of farm animals, the sale of cloned livestock, and the sale of products derived from them or their offspring. In the United States, the Food and Drugs Administration ruled that meat and milk from cloned cows, pigs and goats were safe to eat, resulting in companies cloning hundreds of their prize cattle each year.

Doggy delights: delivering bespoke meals for hungry hounds [27 July/ The Guardian] Tails.com, a start-up dog food business, has entered the market for dog food targeting product to dog owners that reflects their dog's age, breed and medical ailments. The niche market has grown by 14 percent annually despite the broader dog food industry remaining static over the past few years. Tails.com claimed to be the only pet food brand in the United Kingdom that could create a dog food that was tailored to each individual dog and delivered to the owner's door each month. Tails.com Founder, James Davidson said other brands only made specialised dog food based on breed or age, while Tails.com also factored in gender, exercise regime, medical history and favourite flavours. Mr Davidson explained that the company created a helpline with three veterinary nurses once it realised that dog owners wanted to talk to an expert rather than entering details online. The company had raised GBP 10 million from investors over the past two years.

Commercial fishers say country of origin menu labelling vital to ensure consumers are informed [28 July/ ABC Rural] Earlier this year, the New South Wales Government announced that it would push ahead with plans to introduce seafood country of origin labelling in restaurants and cafes. Eden Fisherman, Drew Mudaliar said promoting local seafood would create a new market for fish not currently on the menu such as pilchards, sardines, blue mackerel and ocean jackets. Restaurant and Catering Australia estimated the labelling regulations would add around AUD 300 million a year to the cost of selling seafood through the restaurant sector.

Soylent: 'Proudly Made with GMOs' [28 July/ Food Navigator] Soylent, a Los Angeles start-up company, has joined the conversation around genetically modified food products by writing a blog post entitled 'Soylent: Proudly Made with GMOs'. The blog post urged consumers to put aside negative conceptions about genetically modified crops and look at the evidence. Soylent Research Vice President, Samy Hamdouch wrote the blog in which he explained he was not persuaded that the global food supply would be more sustainable or safer without genetically engineered crops. Mr Hamdouch explained that since the 1920's, breeders have been exposing seeds to radiation and chemical mutagens in order to increase the amount of genetic variation per generation. Mr Hamdouch added that these induced mutations have been used to improve several major crops, leading to over 2,700 'non-genetically modified' crops which may be labelled as organic today.

Cockroach milk: The new superfood? [29 July/ NZ Herald] A team of scientists at India's Institute for Stem Cell Biology and Regenerative Medicine have discovered that cockroach milk is full of nutrients. According to research by the International Union of Crystallography, cockroach milk contained three times the energy of buffalo milk which previously held the record for most calories in a protein produced by an animal. Researchers were currently working to sequence the genes so they could be reproduced in the lab.

13m cows, one app: the city slickers selling cattle via 'crowd-farming' [29 July/ The Guardian] Live Stock Wealth Founder, Ntuthuko Shezi said his South African company used digital technology to allow wealthy city dwellers to invest in cattle. Mr Shezi said his idea stemmed from the fact that it was almost impossible for any single investor to buy, care for and earn money from cattle. Mr Shezi added that his 'crowd-farming' company had launched with a herd of 800 cows on 2,500 hectares of farmland, with 10 percent of the cows having already been bought by investors from all over South Africa, Europe and the United States. Mr Shezi explained that an investor could buy a cow for GBP 550 and pay a small monthly fee for its upkeep and insurance. Mr Shezi added that each cow would produce a calf per year on average, and should be in profit after about two years. Mr Shezi noted that the cows were sold for meat after about eight years.

Farmers who backed Brexit now regretting vote over subsidy fears [30 July/ The Independent] Earl of Sandwich, John Montagu said many British farmers voted to leave the European Union without understanding the consequences and were now unhappy that they may not receive the same level of subsidies made under the European Union's Common Agriculture Policy. Mr Montagu added that the countryside would suffer without the subsidy payments. Baroness Jones of Whitchurch, Maggie Jones said the real challenge for farmers related to the decision over whether the United Kingdom would be allowed to remain in the European Union market with its 500 million customers. Ms Jones explained that 73 percent of the United Kingdom's total agricultural food exports were to European Union countries.

Murray Goulburn flags \$100m hit in contract blow [30 July/ The Sydney Morning Herald] Woolworths has dumped Murray Goulburn as the supplier of many of its private label dairy products, replacing the dairy co-operative with Bega Cheese. A Murray Goulburn statement said the loss of the bulk of its contract with Woolworths would cost the co-operative AUD 100 million a year. The statement added that the financial impact on the 2017 financial year would be limited given the timing of the existing contracts. Murray Goulburn would only retain the contract to supply private label butter and mozzarella cheese.

Wisconsin doubles down on dairy distinction with goat farms [31 July/ NZ Herald] The state of Wisconsin has always been a leader in terms of dairying, but it was now also known for having the most dairy goats in the United States. The number of goats was set to grow with two of the largest goat companies in the world about to begin operations in the state. Goat Farmers, Larry and Clara Hedrich said the growth of the industry was due to existing infrastructure and a growing appreciation for goat milk in the United States. Mr Hedrich said the demand for goat milk was far greater than what the United States could supply, leading cheesemakers to import raw milk from Canada.

Buy-ugly fruit and vege goes mainstream with Walmart [31 July/ Business Day: NZ Farmer] Walmart has announced that it would start selling imperfect looking apples in 300 of its Florida stores. Walmart Global Food Sourcing Senior Vice President, Shawn Baldwin said ugly produce could occur unexpectedly in any growing season or crop and the company wanted to have the systems in place to offer this type of produce to consumers. United States supermarket chain, Whole Foods Markets had sold similar goods in the past but did not have the mass market reach of Walmart.

EU's appetite for foreign land to produce its food is unjust & unsustainable: FOE report [1 August/ Food Navigator] According to a report by Friends of the Earth, the European Union required almost 270 hectares of agricultural land to produce its food, with almost 40 percent of this land lying outside Europe. The report added that European Union policies focused only on domestic issues and did not keep track of Europe's Land Footprint outside of the continent. The report noted that over 70 percent of the land owned by the European Union in 2010 was used to produce animal products, with meat making up the largest proportion.

Farmers and producers

Farmer confidence improves slightly in July [27 July/ NZ Herald] According to a Federated Farmers survey, the confidence of farmers remained weak despite improving a little since January, with commodity and farmgate prices being the biggest concern for 38 percent of respondents. The survey showed that other areas of concern included regulation and compliance costs, health and safety requirements and resource management issues. Around 71 percent of respondents expected their farm's profitability to stay the same or improve over the next 12 months. Federated Farmers President, William Rolleston said the survey was conducted immediately after Britain's decision to exit the European Union and this appeared to have dampened farmer confidence in the global market.

Manuka sweetens land values [28 July/ Rural News] Last year the manuka honey industry grew by 45 percent to \$281 million in exports, making New Zealand the third largest exporter by value despite being just the sixteenth largest by volume. Bayleys Rural Agent, Mark Monckton said the manuka phenomenon meant properties on which manuka could be grown were fetching higher prices, with some more than doubling from \$1,500 per hectare to \$3,500 per hectare in the last couple of years. Apiculture New Zealand Director, John Hartnell confirmed the rise in land values but said the sector had to remain calm rather than fall prey to speculative over-confidence.

Canadians given go-ahead to buy another dairy farm [29 July/ NZ Herald] Canadian investment in New Zealand has continued to grow after the Overseas Investment Office approved the sale of the 918 hectare Maniototo Farm to a Canadian government pension fund. Department of Conservation Central Otago Operations Manager, Mike Tubbs said the department had been approach in regards to the deal and had recommended the protection the Taieri Scroll Plain, a wetland which formed part of the property. Mr Tubbs added that the Overseas Investment Office's condition that the 160 hectare wetland be offered for public ownership was an excellent result which would allow the wetland to be protected in perpetuity. According to a KPMG report, Canadian investors were the biggest foreign investors in New Zealand in 2014, making up 22 percent of total investment compared to China's 14 percent.

Wool

NZer Matt Smith breaks world shearing record [27 July/ Radio NZ Rural] New Zealand Shearer, Matt Smith has broken the world record for the most ewes sheared in nine hours with a tally of 731, ten more than the previous record which had stood for more than nine years. Shearing Sports New Zealand Spokesperson, Doug Laing said it was only the third time the record had been broken in the last 20 years. The shearing started at 5am and finished at 5pm with two hour long breaks for breakfast and lunch and two 30 minute breaks for morning tea and afternoon tea.

Rural infrastructure

Fonterra & LIC Investigating Tech Solutions [28 July/ Scoop Business] Fonterra and Livestock Improvement Corporation (LIC) have combined resources, knowledge and expertise to look at the best way to bring together a farmer's milk production, quality data, herd data, pasture data, local weather forecasts and more into one easy to use online portal. The technology would enable farmers to see their private individual farm information in one place, allowing them to make faster and easier decisions about their farming operation. Fonterra Farm Source Chief Operating Officer, Miles Hurrell said the technology was aimed at helping farmers trim costs and utilise their resources as efficiently as they could. The co-operatives hoped to make the tool available for all farmers, with the first release expected by the end of the year.

Smart tanker partnership wins award [28 July/ Dairy News] Southland District Council has won the Chorus Excellence Award for Best Practice in Infrastructure Management for their "Changing Direction, The Way Forward for Southland's Roads" programme at the 2016 Local Government New Zealand Excellence Awards. The programme used smartphone technology on board Fonterra milk tankers to send road quality information to the Southland District Council in order to gain deeper insights into the state of the district's roads and the pressure placed on them. Fonterra Otago/Southland Regional Head, Mark Robinson said it was wonderful recognition for the council and the Fonterra team at Edendale and it showed what was possible when a partnership approach was taken to face issues in local communities.

Animal welfare

Home detention for calf abuse [28 July/ Business Day: NZ Farmer] Slaughterhouse Worker, Noel Piraka Erickson has been sentenced to ten months home detention and 200 hours of community work after being accused of horrific abuse of bobby calves. Camera footage showed Mr Erickson hanging a calf up on a hook before it was fully dead, killing calves in a way that meant they suffered unnecessarily, and driving one into a concrete floor. The footage was captured on hidden cameras installed at the north Waikato slaughterhouse, Down Cow Limited, by the animal rights group Farmwatch. A summary of the facts of the case said Mr Erickson was told by his managers to stun the calves using blunt force trauma if he felt safer doing it that way.

Shoppers buying blue tick food know animals had a good life [1 August/ Business Day: NZ Farmer] SPCA Blue Tick Ambassador, Ray McVinnie said an increasing number of consumers wanted to know where their food had come from and that the animals enjoyed a good life before their slaughter. Mr McVinnie added that the only way for consumers to be sure of this was to only buy meat and eggs that had the SPCA Blue Tick. SPCA Inspector, Carlijn Bouwman said inspectors and Assure Quality auditors could turn up and check farms without warning before they could get the accreditation. Ms Bouwman added that we were heading towards better animal welfare where companies could no longer afford to put animals in cages.

Sheep milk

Sheep milk company markets to Taiwan [29 July/ Radio NZ Rural] Spring Sheep Milk has launched two sheep milk powder products in Taiwan, the first of their kind on the market. The New Zealand sheep dairy company specialised in nutritional powders for adults in Asia and gelato for the New Zealand market. Spring Sheep Milk Chief Executive, Scottie Chapman said Taiwan was the ideal market as it had very sophisticated consumers who appreciated quality like that produced in New Zealand. Mr Chapman added that 95 percent of what the company produced was exported to Taiwan. Spring Sheep Milk's gelato would be launched in New Zealand later this year.

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Weekly news update from the KPMG Agribusiness Network – 3 August 2016

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