

Background:

“Value creation” discussions have been on-going for over a decade as a result of noticeable decreases in cereal acreage at the expense of soy and canola (Figure 1) [Full Value Creation Timeline]. Producer groups began to take notice in 2012 when Agriculture and Agri-Food Canada (AAFC) announced that they would be exiting variety finishing at the F6 stage. There was significant pushback to AAFC’s statement, and groups began to develop alternative models for variety finishing (you can find the link to this research, called the **Garven Report** in the timeline). Meanwhile, discussions on how to fund genetic innovations in the absence of secure public funding, and encourage private investment into variety finishing, began to heat up.

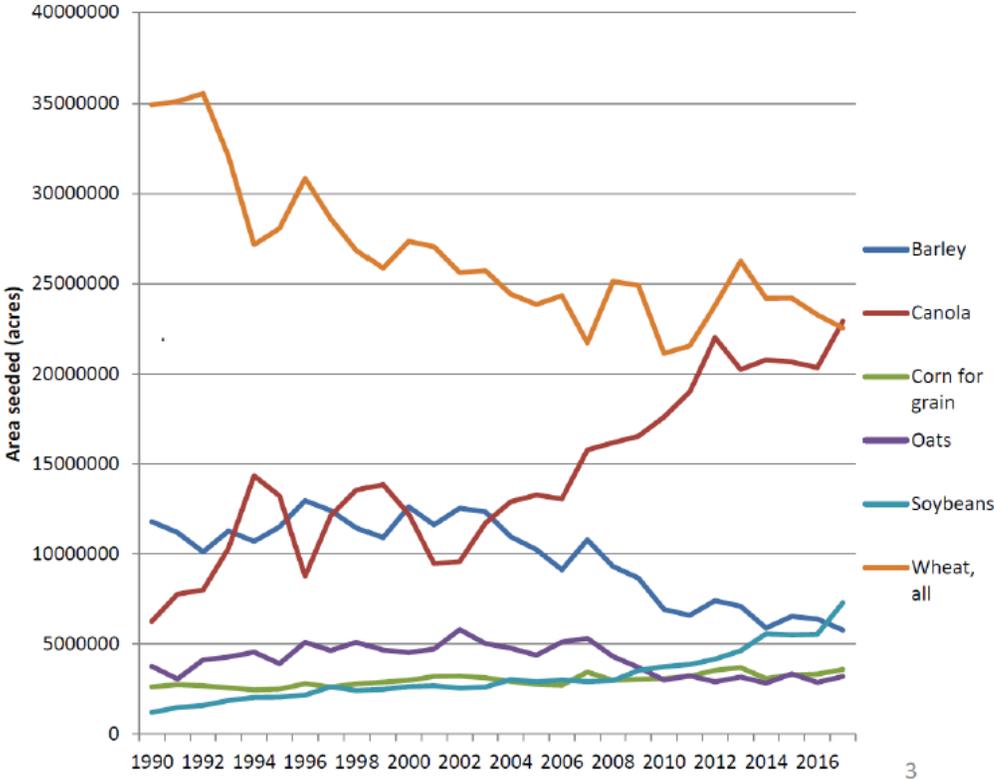


Figure 1: Seeded Acreage of Major Crops by Year

In late 2014, prairie wheat and barley commissions got together under a process facilitated by the Western Grains Research Foundation (WGRF) to examine the issue of farmer involvement in variety development. They commissioned a comprehensive study to look at options for a future model for Canada and examined the systems in other countries. This included a review of end point royalty systems in place in Australia and France.

In March of 2016 Canada's Grains Roundtable (GRT) formed the Value Creation Working Group to examine potential options for a new royalty model in cereal crops. The GRT includes representatives from the entire value chain including farmers, exporters, seed companies, processors and government.

In November of 2017 the working group presented two royalty models for consideration by the GRT – end point royalties and trailing royalties. The working group members did not endorse either model. The GRT recommended that Agriculture and Agri-Food Canada conduct a detailed economic and legal analysis of the two models and then consult with farmers and other industry stakeholders.

In late 2018, AAFC conducted a series of consultations based on the two royalty collection models (Figure 2) brought forward by the value creation working group. Currently, over 90 per cent of new varieties are developed by AAFC and public universities, while private sector investment in breeding is minimal. The proposed royalty models are intended to close this gap in funding and ensure that the sector maintains the research capacity to stay competitive into the future, as public funding may decrease or be focused to other research activities.

While consultations were launched in October 2018, no further analysis or study of the two models has been shared by AAFC. As such, AWC and Alberta Barley believe that producers and their representative groups do not have enough information to make an informed decision as to the appropriateness of one model over another.

What are the issues?

The proposed models of value creation would both impose royalties through differing mechanisms on seed, including farm saved seed of Plant Breeders' Rights protected varieties. As this implies a direct cost to producers who use this seed, it is important that the chosen system provides direct and tangible on-farm benefits. This must be done while retaining farmers' right to use farm-saved seed.

Producers must be able to make meaningful contributions to the consultation process. Given the current lack of information around the impacts of the two models, we do not believe that producers have sufficient information to make an informed decision on the two models. Ultimately, it must be shown that the proposed models will result in higher net returns for farmers.

What is driving this conversation?

Canada is one of the few developed nations that relies on public funding for plant breeding research. Others, such as the United Kingdom and Australia, have long had a royalty system in place for funding private research. Canada's current system discourages investments in private plant breeding research, since there is no effective value capture method in place and therefore no way for private companies to recoup the costs of their investments.

There is major concern within the industry that public funding for plant breeding research will begin to shrink as budgets stagnate and as AAFC directs its attention towards other research activities, such as germplasm development. Without a system in place that encourages private investment, Canada could be left behind as its competitors enjoy the benefits of new varieties developed under a private system.

Who is involved?

Consultations are being led by AAFC, the federal department ultimately responsible for variety development.

Seed Synergy, a group which includes representation from the major Canadian seed companies and associations, including the Canadian Seed Growers' Association, the Canadian Seed Trade Association, the Canadian Seed Institute, CropLife Canada, The Canadian Plant Technology Agency and others, have come out in favour of the trailing royalty system, also called the Seed Variety Use Agreement (SVUA) model.

Other groups, such as producer commissions including AWC and Alberta Barley, have expressed the need for additional information before being able to make an informed decision.

How does this tie into the work/research funded by AWC, Alberta Barley and other commissions?

AWC and Alberta Barley spend \$2.5 to \$3 million annually and closer to \$4 -5 million by 2020 on primary research on behalf of our producers. Our programs fund the complete spectrum of crop research. We fund upstream, genomics works projects or pre-breeding which is predominantly (and expected to remain) publicly performed research. This research contributes to improve traits which can be deployed into varieties. We fund variety development which results in new and improved varieties of both large acre classes (CWSR, CPS, Durum) and smaller acre classes. We also fund agronomic and end-use research which starts with the seed going into the ground and ends with end-use, such as value-added processing and even health.

The majority of this research will not receive funding through a value creation mechanism.

What are the two models?

The two proposed models are an End Point Royalty (EPR) and a Trailing Royalty or Seed Variety Use Agreement (SVUA):

End Point Royalties	Royalty Collection Enabled Via Contracts
<ul style="list-style-type: none"> • A PBRA underpinned national non-refundable royalty payable on all harvested material (i.e., grain) • Leverages the existing provincial check-offs system to collect the non-refundable royalty • Royalties to be distributed to breeders based on their respective market share • Need for a mechanism to provide rebates/exemptions, ensuring royalties not collected on production from certified seed 	<ul style="list-style-type: none"> • A PBRA underpinned mechanism allowing for contracts where producers agree to farm saved seed conditions • Purchasers of certified seed for eligible varieties agree to extended contract on farm saved seed use (e.g., agreeing to a 'trailing' royalty on farm saved seed) • Participating producers report on their annual use of farm-saved as part of their contractual obligation • Will require at least some degree of centralization in royalty collection and distribution

Figure 2

Where are we now?

AWC and Alberta Barley continue to engage in conversations with AAFC to reflect the perspectives that we have heard from our farmers throughout the consultation period. We recognize that there are still a number of outstanding questions from producers and the sector in general, and as such, have joined forces with other western Canadian cereal commissions to request that the government make changes to the on-going consultation process.

While we recognize the need of our producers in sustaining and growing research in this country AWC's position on this issue is as follows:

- We support innovation, but public breeding institutions or private companies must demonstrate that either of these models (or others) will result in higher net returns to famers.
- A value creation model cannot result in higher costs to farmers already working with tight margins.
- Additional consultations on value creation are needed with a focus on engaging producers with a new value proposition.
- Time and due diligence are needed for this very important issue. AAFC should take the time necessary to make sure it results in a solution that is in the best interest of producers.
- It is clear that in the late 2018 consultations, that most producers were not in support of the two options presented; however, many other options were presented and should be explored as part of ongoing consultations.

- We support the right of farmers to use farm-saved seed and we need to better understand how these proposals would impact producers bottom lines. An economic analysis should have been done on these or other potential models to help.
 - It needs to be clarified that the consensus had not been achieved (through the Grains Roundtable or by commissions) with respect to the two options that AAFC has put forward.
 - AWC and Alberta Barley will be seeking ongoing input from our producer members before taking any position on either of the two models presented.
 - AWC and Alberta Barley collect a levy on all wheat and barley marketed in Alberta. This levy goes towards producer advocacy and investment in market development and scientific research, including genetics and agronomics, to increase the profitability of Alberta's wheat and barley producers. AWC and Alberta Barley have been actively investing in public breeding systems since inception. Regardless, of the results of the consultation process, our support for innovation in these areas will remain.
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- Provide your feedback to the Alberta Wheat and Barley Commissions by emailing feedback@albertawheatbarley.com