

# The Role of Corporate Governance in Australian Crop R&D

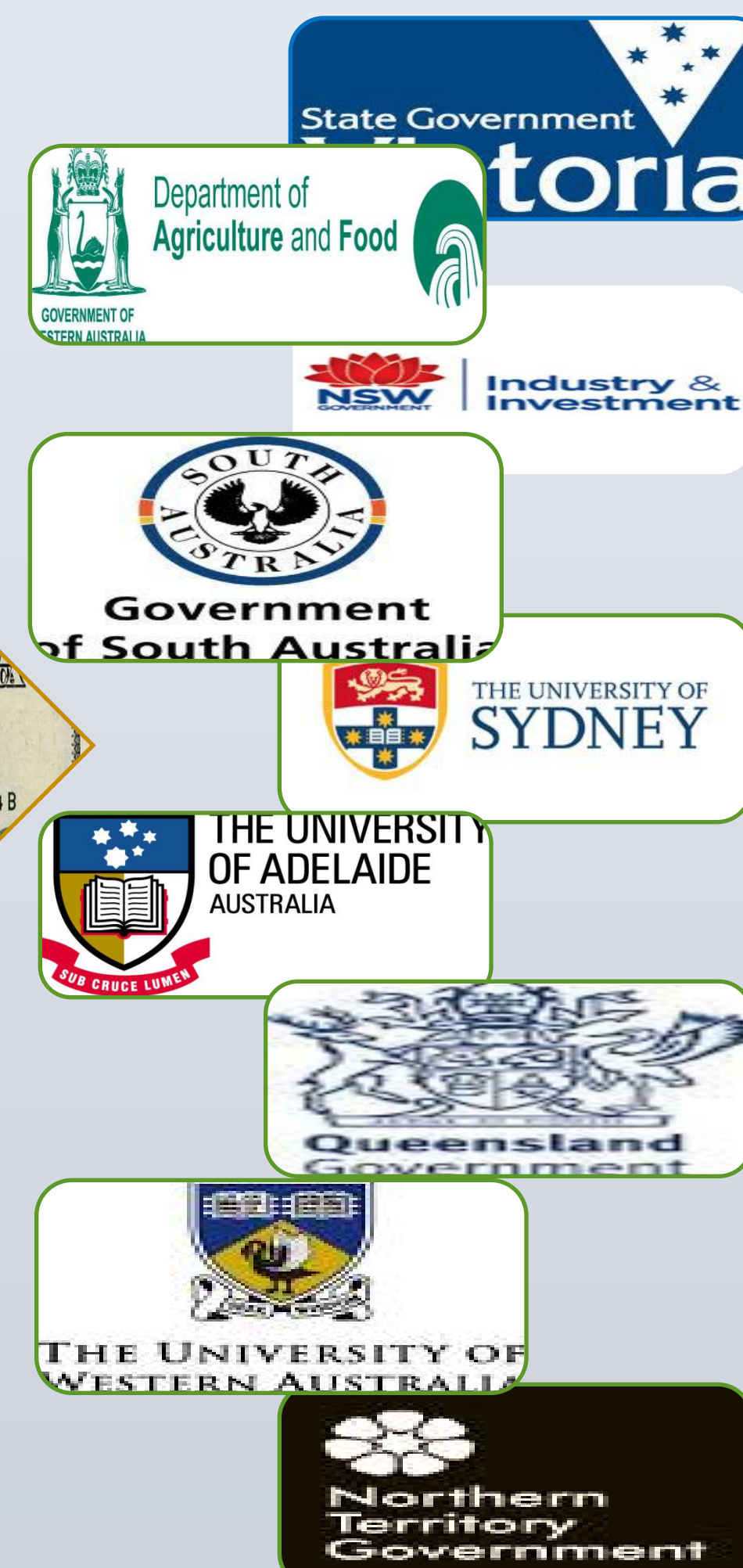
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## Before GRDC

- Historically most agricultural R&D in Australia was publicly funded.
- In 1957 the first out of 14 statutory advisory committees (the DPI, the CSIRO and producer groups) was established.

Researchers set the agenda

**Statutory Advisory Committees**  
(the DPI, the CSIRO and producer groups). The committees administered the funds from a compulsory producer levy (matched by the Government). Funding decisions were made by the Minister on the basis of the committee's recommendations.



- ✓ **Source of funding:** producer levies matched by federal government. State government.
- ✓ **Research output owned** by State Government and Universities.

- In the early 1980s a general dissatisfaction by the Commonwealth, with the way the system was working. Failure of the committees to consider expected rates of return when allocating funds to projects.

## Conclusions

### Vertical Integration- GRDC

- *Property Rights Theory* - investment of producers were important that's why they vertically integrate.
- *Incentive System Theory* - agency costs were reduced.

## GRDC

- **The Primary Industries and Energy Research and Development Act 1989 (Cwlth) (the PIERD Act)** established model for the 15 RDCs.
- **The Grain Research and Development Corporation (GRDC)** is founded under the PIERD Act. The GRDC is managing the grower levies 1% at farm gate (collected from 25 crops, including wheat), matched by government up to 0.5 of GVP. Strong linkages with producers; it is better able to meet industry needs than previous system.

GRDC (producer) set the agenda



- ✓ **Source of funding:** producer levies matched by federal government. State government.
- ✓ **Research output owned** by GRDC, State Government and Universities.

- In 1990s there were 9 wheat-breeding programs (each state department and university). The GRDC was investing in the projects.

- *Adaptation Theory* - decision making by producers was better facilitating market needs.
- **Vertical separation**
- *Property Rights Theory* - private sector investment was important which is why they vertically separate and create commercial entity.

## Vertical Separation

- 1994 **Plant Breeder Rights Act** enabled charging End Point Royalties (strong form of Intellectual Property Rights) which gives prospect for breeding program to become profitable in time.
- The **GRDC** started tender process.

Breeding Companies set the agenda



2002 -AGT was established  
**Shareholders:** GRDC, South Australian Research and Development Institute and University of Adelaide

2007- InterGrain was established.  
**Shareholders:** Government of Western Australia and the GRDC  
Monsanto joined in 2010

2003- HRZ Wheat was established  
**Shareholders:** CSIRO, NZPF, the GRDC  
Landmark Operations. In 2011 Dow AgroSciences - investment.

- ✓ **Source of funding:** End Point Royalties.
- ✓ **Research output owned** by breeding companies.

- The GRDC has become a shareholder in 3 wheat-breeding companies (AGT, HRZ Wheats, InterGrain), which are operating as self-funded entities.
- GRDC invest only in prebreeding.

- *Rent Seeking Theory* - the frictions associated with administrative coordination of investing in 9 breeding programs became severe.
- *Adaptation Theory* - EPR system is sufficient to limit risk of producers to the level that they chose vertical separation.