

Comments to the *Growing Canada's Agricultural Economy* Conference

Discussant: Murray Fulton

January 25, 2013

Thanks for the opportunity to be a discussant on this session. This is a great conference and I am delighted to be part of it.

Both Earl and Jean-Marc have nicely dealt with the key issues arising in grain marketing over the next few years. I would like to discuss a different issue, namely the new varieties that are required for the Canadian wheat industry to thrive in the future.

Yesterday, Mike Gifford challenged agricultural economists to do more than just analyze the outcome of policy options. He urged us to stick our necks out and propose structures that could potentially be used to address the issues that the industry is facing. What follows, I hope, is a small step in this direction.

In the last two weeks I have been in a couple of conversations in which the opinion was expressed that within 20-25 years wheat could be a marginal crop on the Canadian prairies, with soybeans and corn having taken over a large percentage of the acreage.

The reasons for such a prediction are clear enough. Wheat yields have not risen nearly as fast as those of corn, or even canola. And they are not expected to catch up any time soon. The problem is a lack of research funding. At the current time roughly \$20-25 million is spent on wheat research. This is a very small fraction of what is spent on corn in the United States. And it is small compared to what other countries are spending on wheat – Australia currently spends four to five times this amount.

One of the conclusions reached at the Canadian Agricultural Innovation Research Network (CAIRN) meeting on Wednesday was that a drastic change was required in wheat breeding in Canada in order to begin to address the problem. It was also concluded that the likelihood was very high that the status quo would prevail, at least for the next five to ten years. It is precisely during periods like this that bold policy action is required.

What might this bold action look like? There are three options. Of these, it is clear that one is off the table – namely a large increase in the allocation of public funding to wheat breeding. While the government has indicated it will fund basic research in areas such as germplasm, it has also made it very clear that other areas of government spending have a higher priority for the limited funds that are available.

This leaves two broad options. The first of these is to turn the breeding activities largely over to the life science companies and have wheat breeding develop much as it has in the canola sector. This option requires that the government provide sufficiently strong intellectual property rights so that companies find it desirable to make the significant investments that are required (more on this in a minute).

The second option is to create an environment in which both producers and the life science companies make the needed investments, sometimes operating separately and other times partnering with each other. Although there would be differences, the proposed model would share features of the systems in both France and Australia. In addition to well-defined property rights, this option requires that producer groups have access to sufficient research funds so that they can be active partners with the private sector. To raise these funds requires the introduction of check-off levies that are much higher than what is currently observed, and the introduction of end point royalties.

I would like to make the argument that the second of these two latter options is the most desirable. In addition to providing farmers with a substantial degree of control over the direction that wheat breeding takes, this second option is likely the only one that is achievable in the short to medium term. But bold action is required to achieve this option. What is the nature of this action and why is it required?

The need for bold action comes from the aversion to paying check-off levies and end point royalties that exists among producers. At Wednesday's CAIRN workshop we heard that there is currently no agreement by producers around levies and royalties. This lack of agreement suggests that the status quo will be maintained until the time that things are so bad that change finally takes place. If the status quo is maintained, then the option of turning breeding over to the life science companies would not take place for some considerable period of time. The reason –

producer opposition will make it impossible to introduce the intellectual property rights necessary to make this option viable. As a case in point, UPOV-91 still has not been implemented in Canada. Even with strong property rights (unless they can be extended to farm saved seed), the private firms will be limited in the price they can charge for new varieties over the short to medium term, since these varieties will have to be priced to be competitive with existing varieties.

The bold policy move that is required today is to make the case to producers that, in exchange for the introduction of higher check-off levies and end point royalties, they will be able to participate in directing the substantial funds that would be made available from these tools. There is precedent for such a trade-off – the formation of the research development corporations in Australia in the mid 1980s involved essentially this bargain.

Producers also have to be made aware that they need to get organized on a substantial scale before such an outcome could come about. In the last year the number of R&D commissions have proliferated. These groups need to find a way to merge so that they can achieve the kind of economies of scale required for the effective management of breeding funds. And, in merging, producers need to adopt structures that will allow them to partner with the life science companies in breeding programs.

It is not just enough for the government to announce that it would like to make a deal with producers. As was the case in Australia, the government needs to make a significant investment in actively promoting the idea of a bold new move for the wheat sector. Such promotion would include, among other things, a substantial marketing effort that would spell out the costs and benefits of adopting this strategy.

To recap, a game-changer is needed in the wheat industry. This game-changer requires bold action that would see producers trade-off end point royalties and higher levies for a much more substantial role in breeding and crop development. Without such action the industry will continue its downward slide. With such action, the current reasonably strong producer groups can be greatly strengthened and a platform for private sector investment can be created.

Thank you.