

## C. FUNDING INNOVATION

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CSTA supports the development of policies, programs, structures and regulatory systems to fund both public and private plant breeding and research which:

- Recognize and account for the role that the entire seed value chain plays in developing and delivering investment to farmers and to end users
- Fully reward the breeding community for investment
- Encourage the increased use of pedigreed seed to improve quality assurance, improve input use efficiency and stimulate investment in innovation.

With respect to specific funding models:

**Value Chain Royalty<sup>1</sup>** - Where a product is identity preserved throughout the value chain from the breeder to the end user, incorporating a royalty into contracts throughout the system could ensure that the benefits of the variety and the costs of developing it are shared through the value chain. In this type of closed system, the royalty charged should reflect the investment made by each link in the chain, from the producer to the end user.

**Delivered Grain Levy<sup>2</sup>** - A research levy imposed on harvested material or at the point of delivery could potentially be a source of compensation if the following criteria are met:

- All components of the seed industry (breeders, seed growers, seed processors, seed distributors and retailers) are an integral part of the development of the collection and distribution system.
- The collection system recognizes and compensates all of the components of the seed industry (breeders, seed growers, seed processors, seed distributors and retailers) commensurate of their share of the market.
- The system rewards farmers for the use of pedigreed seed – eg. the levy is not collected, or a premium is paid, on the harvested crop where certified seed has been used to plant the crop.

**End Point Royalty (EPR)** – moving the royalty collection point from seed to the harvested material (grain) could generate a return on investment for the plant breeding community; however the following concerns would have to be addressed:

- The private seed sector is concerned that giving a third party the authority to establish the EPR could confer unacceptable control over the innovation and investment plans of seed companies. This concern would have to be addressed in the development of an EPR system.

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<sup>1</sup> The legal definition (used in regulations and legislation) of the term royalty: “*Compensation for the use of property, usually copyrighted works, patented inventions, or natural resources, expressed as a percentage of receipts from using the property or as a payment for each unit produced.*”

<sup>2</sup> The legal definition (Webster’s New World Law Dictionary) “*A tax or penalty*”

- Seed royalties are established by the developers based on their valuation of the technology and the seed. If they are replaced with a single end point royalty, is there potential for a negative impact on competition between seed companies? Would it constitute a contravention of the Canadian Competition Act? Before proceeding with the establishment of a uniform end point royalty, these questions would need to be answered, and steps taken to resolve any potential negative impact on competition.
- There is value, beyond the royalty, in purchased seed. The end point royalty would have to be set at a level that recognizes and compensates for the value of the seed in addition to the royalty in order to actually increase the funds available for investment in innovation.
- Any end point royalty system would need to be designed to facilitate the sharing of the proceeds throughout the seed value chain (breeders, seed growers, seed processors, seed distributors and retailers) commensurate of their share of the market.

Regardless of the funding model, it is very important that it recognizes and enhances the role of both the public and private sectors in plant breeding and research, and accounts for the very significant role that the entire seed sector plays in delivering innovation to farmers.

- All components of the seed industry (breeders, seed growers, seed processors, seed distributors and retailers) must be represented on the body that is or will be established to design, maintain and administer the collection of levies/royalties, and the selection of projects and programs that will be funded.
- Projects or programs selected for funding should complement and not duplicate
- The administration costs for the program should be kept to a minimum and should be subject to the scrutiny of the administration body.