

# COMPARING VALUE CREATION MODELS

## SEED VARIETY USE AGREEMENT

*Value. Transparency. Choice.*

For more than a decade, the seed and grain industry has been exploring ways to increase value creation for Canadian agriculture. As a result of the work of the Grains Roundtable, two potential models emerged – the Trailing Royalty Contract, also referred to as the Seed Variety Use Agreement (SVUA), and the End-Point Royalty (EPR).

In fall 2018, Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency began consultations to gather stakeholder input on the two models. Since that time, a third model, referred to as the Collective Research model (levy-based approach), has been proposed by some farm organizations in Western Canada.

The goal of all models is to increase investment in variety development for the cereal, pulse and specialty crop sectors. Enhancing plant breeding funding in Canada will ensure producers can remain competitive in a global marketplace. More information is available at [seedvaluecreation.ca](http://seedvaluecreation.ca).

### Value Creation Principles

A value creation model must meet the guiding principles of the Grains Roundtable. This chart shows how each proposed model stacks up:

**A new/revitalized model should\*:**

	SVUA	EPR	COLLECTIVE RESEARCH
Look to future needs as well as today's needs; be flexible	✓✓✓	✓✓	✓✓
Encourage and promote competition	✓✓✓	✓✓	✓
Ensure value is created for entire value chain; reward success	✓✓✓	✓✓	✓
Ensure everyone who benefits contributes, and contribution is proportional to benefit	✓✓✓	✓✓✓	✓
Be efficient, transparent, accountable; not leave large administrative footprint	✓✓✓	✓✓	✓✓

✓ To some extent    ✓✓ To a moderate extent    ✓✓✓ To a great extent

**The SVUA is simpler, quicker to implement and best reflects the guiding principles of the Grains Roundtable. It is also a royalty based on protected seed being reused and planted as compared to a royalty on grain delivered.**

\*From Value Creation Working Group Presentation to the Grains Roundtable (2017) and Funding Innovation Working Group (2013)

# PROS AND CONS OF THE SVUA, EPR AND COLLECTIVE RESEARCH MODELS

How each model is implemented is where the pros and cons of each system emerge.



## SVUA

An Agreement (contract) between a producer who purchases Certified seed of a *Plant Breeders' Rights* (UPOV '91)-protected variety and the breeder who developed it. A seed royalty is paid at the time of purchase and in the subsequent years that grain from those varieties is diverted for seed use.

### PROS



Gives producers choice. They can choose to participate by purchasing *Plant Breeders' Rights* (UPOV '91)-protected seed.



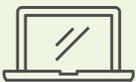
Creates value for new varieties protected by *Plant Breeders' Rights* (UPOV '91), but does not impact older varieties.



Provides quicker return on investment. Public and private plant breeding programs get paid sooner as compared to other models, resulting in accelerated access to new varieties for producers.



Increases competition among plant breeding programs to create improved varieties for producers because the royalty is specific to the variety and the value it creates.



Seed industry operated and managed under a central, automated platform.



Allows for one system for all regions and crops across Canada.



No legislation changes necessary. Therefore, can be implemented and make an impact more quickly than other options.



Uses a contracting system, which is something that producers are already accustomed to with other seed trait technologies.



Supports Canada's Pedigreed seed system.

### CONS

- Requires collection from producers as compared to the other options that collect from grain companies.
- Requires producer declaration by variety annually.

## EPR

A grain royalty payable on all harvested grain from farm-saved seed of UPOV '91-protected varieties.

### PROS

- ✓ Gives producers choice. They can choose to participate by purchasing UPOV '91-protected seed.
- ✓ Increases competition among plant breeding programs to create improved varieties for producers because the royalty is specific to the variety and the value it creates.
- ✓ Collection efficiency: could take advantage of existing systems, with some modifications, to collect the royalty.
- ✓ Fewer collection points – grain companies vs. individual producers.

### CONS

- Requirement for producers to declare variety on every grain delivery.
- Need for mechanism to ensure royalties are not collected on production from Certified seed (i.e. double payment) or non-UPOV '91 varieties.
- Relies on those outside of seed industry (grain buyers) to collect, administer and control the process.
- Leakage: grain exported directly by a producer or used for feed grain could escape the royalty (not a level playing field for producers).
- Breeding programs will only get paid once the crop is delivered to an elevator, which can take up to several months or even years.
- May require legislation changes, which could add additional time to implement.
- May reduce the use of Certified seed as seen in other countries using this system (unless regulations are created to mandate Certified seed use).

## COLLECTIVE RESEARCH MODEL (levy-based approach)\*

This model is still being defined. At present, it is proposed as a grain levy that is collected at point of sale on cereal production. An alternative scenario is to collect the levy on all production of all crops across Canada.

### PROS

- ✓ Collection efficiency: could take advantage of existing systems, with some modifications, to collect the levy.
- ✓ Fewer collection points – grain companies vs. individual producers.
- ✓ Direct involvement by producers in deciding how a portion of the levy will be spent.

### CONS

- Producers do not choose to participate – a levy is collected on all varieties.
- Relies on those outside of seed industry (grain buyers) to collect, administer and control the process.
- Leakage: grain exported directly by a producer or used for feed grain could escape the levy (not a level playing field for producers).
- Breeding programs will only get paid once the crop is delivered to an elevator, which can take up to several months or even years.
- Does not provide for a level playing field between public and private plant breeding programs.
- Will require new legislation, which will take 5 to 10 years to put into place.

\*This information is based on our understanding of this alternative model as at June 2019.

# How will each model work?

	SVUA	EPR	COLLECTIVE RESEARCH
<b>Producer Purchases Seed</b> 	<p>Producer chooses Certified seed of a <i>Plant Breeders' Rights</i> (UPOV '91)-protected variety.</p> <p>Seed retailer explains SVUA/EPR; purchaser signs agreement.</p> <p>Purchase information entered in agreement platform (grower name, address, variety, Certified seed quantity).</p>		<p>Levy applied in all cases regardless of seed source and age of variety.</p>
<b>Producer Harvests Crop</b> 	<p>If a producer <b>diverts some harvested grain for seed use</b> the following year...</p> <p>Producer <b>declares amount used for seed.</b></p>	<p>Producer ships grain to elevator or processor and <b>declares the variety name(s) on every grain delivery.</b></p>	
<b>Royalty Payment</b> 	<p>SVUA system sends invoice to the producer for Seed Variety Use Fee (SVUF) for all varieties used (one invoice for all varieties used under SVUA).</p>	<p>Grain elevator/processor deducts a grain royalty for the total amount of grain shipped from grain settlement. A mechanism to ensure royalties are not collected on production from Certified seed (i.e. double payment) or non-UPOV '91 varieties will need to be put in place.</p>	<p>Grain elevator/processor deducts a levy for the total amount of grain shipped from grain settlement.</p> <p>A system would also need to be developed for on-farm use and direct grain exports.</p>
	<p>Producer pays SVUF for use of the seed genetics for that year.</p>	<p>Grain elevator/processor remits collected payment for each variety to EPR/Collective Research system.</p>	
<b>Payment Distribution</b> 	<p>SVUA system distributes the funds collected to each public or private plant breeding program based on the amount collected for their varieties.</p>	<p>EPR system distributes the funds collected to each public or private plant breeding program based on the amount collected for their varieties.</p>	<p>Collective Research system distributes one portion of the funds collected to plant breeding programs and another portion to a 'collective pool.'</p> <p>A new producer organization will be tasked with identifying the collective research priorities and distributing funds to projects addressing those priorities.</p>
<b>Compliance</b> 	<p>Audit system will be set up to review producer compliance.</p>	<p>Audit system will be set up to review grain company collections and producer compliance.</p>	<p>Auditing requirements not yet determined, but would need to incorporate on-farm use and direct grain exports.</p>

Visit [seedvaluecreation.ca](http://seedvaluecreation.ca) for more information.

This document has been prepared by the Seed Synergy Collaboration Project.