

Core Breeding Agreements: Royalties

The Canadian Wheat Research Coalition (CWRC) and the Canadian Barley Research Coalition (CBRC) have established “core breeding agreements” with Agriculture and Agri-Food Canada (AAFC) and the University of Saskatchewan’s Crop Development Centre (CDC). CWRC has recently announced additional agreements with the University of Alberta (U of A) and the University of Manitoba (UM).

Past core breeding agreements were administered by the Western Grains Research Foundation (WGRF) using some funds from the Western Canadian Deduction (WCD), which was in place from 2014 to 2017. The WCD was legislated to end in 2017, at which point the provincial wheat and barley commissions committed to assuming the responsibility of funding public variety development capacity support.

What do the core breeding agreements cover?

While agreements will vary slightly depending on the breeding institution, they generally provide variety development capacity support, particularly around human resources. Support is spread across the continuum of variety development, from germplasm and trait development up to the point of commercialization.

What is the value of the core breeding agreements?

CWRC

- **AAFC:** \$22.6 million over 5 years beginning 2020
- **CDC:** \$9.6 million over 5 years beginning 2020
- **U of A:** \$2 million over 5 years beginning 2021
- **UM:** \$3.5 million over 5 years beginning 2021 (includes funding from partners WGRF and Saskatchewan Winter Cereals Development Commission)

CBRC

- **AAFC:** \$1.5 million over 5 years beginning 2020
- **CDC:** \$2.7 million over 5 years beginning 2020

What does CWRC and CBRC get in return for their funding?

The key deliverable in the core agreements is “field ready varieties”. A field ready variety is a variety that has been approved for registration by the Canadian Food Inspection Agency (CFIA) and once multiplied, becomes commercially available to farmers. Support to the UM program includes funding for the Fusarium head blight nursery, which ensures continued improvement in disease resistance.

In addition to field ready varieties, CWRC and CBRC entered into commercialization agreements and negotiated a share of the institution’s certified seed royalties to be controlled by the coalitions. Certified seed royalties are collected on certified seed and, depending on the license agreement, a share is returned to the breeding institution by the commercialization partner.

How is the division of royalties determined and how are they managed?

The share of royalties provided to CWRC and CBRC is determined during the negotiations of the core agreements. Typically, the larger the investment compared to the size of the program, the larger the share of royalties back to producers.

Management of royalties controlled by CWRC and CBRC varies by institution. In some instances, royalties are transferred to the accounts of the coalitions. In other instances, the coalition's share of royalties is reported, retained in an account at the institution, and the allocation of those monies is directed by CWRC and CBRC. The management method is deliberately selected to ensure the greatest return of funds to the research programs and can be affected by overhead costs, and administrative and intellectual property policies of the institution.

What is the value of seed royalties expected to be returned to CWRC and CBRC?

The value of royalties returned to the coalitions will very much depend on the percentage of royalties negotiated and the commercial success of the varieties developed during the terms of the agreements. Each time certified seed of a variety developed under the agreement is sold, royalties will be returned.

Because the CWRC and CBRC core agreements were established so recently, varieties registered under the agreements have not yet started commercial production. However, in 2021, WGRF, the administrator of the previous core agreements, received nearly \$2.725 million in royalties from combined wheat and barley core agreements. These royalty funds are placed in the Wheat Fund and Barley Fund, depending on which core agreement they resulted from. As per WGRF policy, the Wheat Fund and Barley Fund can be utilized to fund research and crop research capacity. The Wheat Fund is for wheat research and will be depleted to zero as determined by the WGRF board. The Barley Fund is for barley research and will be depleted to zero as determined by the WGRF board.

How are varieties licensed to seed commercialization partners?

While the specifics of the process will vary depending on the breeding institution, in all cases of varieties developed under the core agreements, the licensing process is competitive.

Once the varieties developed by the institution that year have been approved for registration, a request for proposals (RFP) will be released. The RFP will include the profile of the variety – the disease package, the agronomics and the quality profile, as well as any special traits (such as solid stem or midge resistance).

Interested commercialization partners will submit a proposal detailing their marketing intentions, the lump sum licensing fee they are willing to pay and the amount of royalties they will remit to the breeding institution.

Under the terms of the core agreements, the coalitions are voting members of evaluation committees and play a role in selecting the commercialization partner.

Neither CWRC nor CBRC will play a role in the actual commercialization process or in the marketing of the varieties developed under the agreements.

What will CWRC and CBRC do with the royalties they receive?

Because agreements were just recently executed, varieties registered during the term of the agreement have not yet entered commercial production and therefore no royalties have been returned to CWRC and CBRC. However, once received, the CWRC and CBRC are committed to returning the royalties back to the breeding institutions and programs that developed the varieties. CWRC and CBRC are represented on steering committees of the breeding institutions and will continue to work with them for advancement. A process will be set up to make these funding decisions to add further value to the programs in a timely matter.

All royalty revenue will be reported in the annual report of the coalitions. These values will be included in the yearly financial statements if monies are transferred to coalition accounts, as opposed to held in a special account at the institution.

What happens if there is an end-point or trailing royalty introduced on a variety under a core agreement?

Currently, there are no end-point or trailing royalties on any varieties developed under historic core breeding agreements.

The core breeding agreements contain a clause which will trigger further negotiations between the coalitions and the institution should there be a desire to introduce an end-point or trailing royalty (or any other type of value capture mechanism) on a variety via contract law or if federal legislation or regulation introduces a larger scale royalty program.