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# Agricultural Innovation

Tiffany Shih and Brian Wright

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## 2.1 Introduction

Agricultural production is a highly decentralized and geographically dispersed activity, dependent upon a wide variety of technologies applied to a heterogeneous natural resource base that is changing over time. Its principal products are necessary inputs into consumer goods essential for life, and continuous availability at acceptable quality and price is vital.

The history of agricultural innovation is relevant to plans for accelerating energy innovation because energy production and use share many of the preceding characteristics. Many innovative energy technologies are becoming more similar to agriculture as they revert from depletable to renewable resource bases. Indeed, the principal currently commercialized biofuels technologies involve agricultural production. Like agriculture, energy production critically relates to greenhouse gas production. It is widely agreed that climate change will have a greater impact on agricultural production than on any other sector, while in the energy sector, its effect on investment is already significant.

The record of achievement in agricultural innovation over the past century is impressive. Increases in agricultural productivity have fueled rates of increase in food supply that outpaced the joint effects of growth in personal consumption and population, with only modest recruitment of new cropland (Pardey and Beintema 2001). Better nutrition has, in turn, transformed

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life expectancies, labor productivity, and the rate of population growth. Agricultural research activities have spread around the globe with marginal social rates of return so high that they strain credulity. Patterns of participation and technology exchange demonstrate high interdependence both between countries and along the public-private spectrum (Wright et al. 2007, table 1).

Agriculture has a long history of productive public research. Evenson's (2001) survey of over forty studies between 1915 and 1999 gives a marginal real social rate of return to U.S. public agricultural research investments between 45 to 65 percent.<sup>1</sup> Alston et al. (2010) report marginal internal rates of return on state agricultural research to be, on average, at least 19 percent for private returns and at least 23 percent for public returns.<sup>2</sup> The development of an effective system for public investment in research and knowledge dissemination critically contributed to the observed pace of agricultural advancement. In addition, sharing of knowledge and innovation between farmers, input suppliers, and researchers, both within agriculture and beyond, has played an important role. For example, just as applied research in electronics, communications, and nuclear energy have drawn from basic research funded by the U.S. Department of Defense, recent innovations in agricultural biotechnology owe much to projects on human health funded by the National Institutes of Health.

Compared to other sectors, agricultural research investments are more geographically dispersed, both within the United States and globally. Indeed, public investments in agricultural research from developing countries have recently overtaken public agricultural investment in developed countries as a whole (Wright et al. 2007). The fundamental influence from the natural features of the growth environment means that adaptive research is often needed to apply agricultural biotechnological innovations in a given local area. The U.S. institutional structure supporting agricultural research reflects this reality, employing state- and local-level research institutions and experiment stations to meet the needs of local farmers. Because the primary benefit of innovation in agriculture is lower food prices, countries with large populations can internalize a larger share of the gains from more basic research that has strong externalities across neighboring environments. Thus, large countries account for a dominant portion of public research investments.

Beginning in the United States in 1980, advances in biotechnology, combined with the extension of strong intellectual property (IP) protection to

1. However, in a meta-analysis of nearly 300 relevant studies (including those derived from U.S. data or foreign data), Alston et al. (2000a) note that the estimates for annual rates of return range from -7.4 to 5,645 percent. Few studies actually fall into the 45 to 65 percent category. The authors find significant variation in the estimates derives from the different rate of return measures used, potential analyst biases and methodologies used, and the type of research evaluated. Alston et al. (2000b) instead estimate an 80 percent overall annual rate of return to research.

2. Alston et al. (2010, table 11-4, 368, and table 11-5, 369).

agriculture, have elicited such a great private investment response that it now exceeds public investment. The proliferation of IP, however, has not been without consequences. There is mounting evidence of a negative effect on freedom to operate in public-sector projects directed toward production of plant varieties and other technologies for use by farmers. The problem arises from fragmented IP claims to technology inputs and is especially prominent in the agricultural biotechnology field. The private sector responded to costly sharing of IP with a series of industry purchases, leading to market concentration and the current dominance of the agricultural industry by the firm Monsanto.

Public interventions with other objectives also affect innovation. Public support for the incomes of farmers and other agricultural investors moderates their opposition to policies reducing commodity prices, revenues, and, more fundamentally, asset values. Government regulations regarding food production and distribution, employment, environmental protection, and intellectual property rights (IPRs) also affect the level and distribution of private research and development and technology investments on and off the farm, as well as the market structure of input industries.

Like the energy sector, the agricultural sector is facing continued challenges posed by a growing global population with changing demands on the amounts and kinds of resources being used and by evolving concerns regarding global resources and environmental constraints. Awareness about global interdependence of the world's food supplies has extended to concerns regarding environmental externalities such as global warming, motivating international efforts to harmonize regulations and share technologies. Recently, concern about food security has engendered a flurry of private investment and strategic activity.

In this chapter, we provide an overview of innovation policies for agriculture with the purpose of highlighting aspects of interest to the energy sector. We proceed as follows. Section 2.2 provides a summary of global agricultural research investments with particular attention to public versus private investments and their distribution between developed and less-developed countries. Section 2.3 provides a brief history of U.S. public investment in agriculture. We next discuss the main intellectual property mechanisms relevant to agriculture and their effects on research and innovation markets, followed by a short discussion of the extent and efficacy of public-private collaborations in section 2.5. Section 2.6 considers government regulation and its dual responsibilities of ensuring public safety and promoting technological advances. We then describe the factors influencing technological adoption in agriculture, followed by a brief conclusion.

## 2.2 Agricultural Research Investments

According to the latest available figures, public and nonprofit funding accounts for about two-thirds of global agricultural research expenditures,

while private investments account for the other third (Wright et al. 2007). These aggregate figures mask the fact that the *types* and *scope* of research performed by the two sectors are neither perfectly substitutable nor independent. In general, private investments are far more concentrated by crop and technology than public investments and tend to rely on the latter for the basic science inputs in order to produce applied technology (Alston, Pardey, and Roseboom 1998).

### 2.2.1 Research Investment Trends

Public spending on agricultural research experienced overall growth in the past few decades, from about US\$ 15.2 billion (at year 2000 prices) in 1981 to US\$ 23 billion in 2000 (table 2.1). During the 1990s, public agricultural research expenditures by developing countries as a group exceeded those by developed countries for the first time. In no other sector does research expenditure by developing countries have comparable prominence.

China, India, Brazil, South Africa, and Thailand now undertake over half the investment in less-developed countries. However, research per capita or relative to agricultural output is far less concentrated. Similarly, public

**Table 2.1**                      **Estimated global public and private agricultural research and development (R&D) investments, 2000**

	Agricultural R&D spending (international 2000\$ million)		Shares in global total (%)	
	1981	2000	1981	2000
<i>Public</i>				
Asia and Pacific (28)	3,047	7,523	20.0	32.7
Latin America and Caribbean (27)	1,897	2,454	12.5	10.8
Sub-Saharan Africa (44)	1,196	1,461	7.9	6.3
West Asia and North Africa (18)	764	1,382	5.0	6.0
Subtotal, less-developed countries (117)	6,904	12,819	45.4	55.8
United States	2,533	3,828	16.7	16.6
Subtotal, high-income countries (22)	8,293	10,191	54.6	44.2
Total (139)	15,197	23,010	100.0	100.0
<i>Private</i>				
Developing		869		6.5
High income		12,577		93.5
Total		13,446		100.0
<i>Public and private</i>				
Developing		13,688		37.5
High Income		22,767		62.5
Total		36,456		100.0

Source: Pardey et al. (2006).

spending by developed countries is concentrated on a small set of countries: the United States, Japan, France, and Germany. Developed countries spent about as much on public agricultural research (US\$ 12,577 million) in 2000 as developing countries spent on public research (US\$ 12,819 million). Private spending in developing countries was only US\$ 819 million, as shown in table 2.1. (Wright et al. 2007; Wright and Pardey 2006)

As in energy, public and private research spending tends to increase in response to periods of high prices and go slack when low prices have restored a false sense of security. Public research spending, strong after the food price crises of the 1970s and early 1980s, declined during the 1990s in most areas. In developed countries, annual growth rates of 2.2 percent during the 1980s fell to 0.2 percent per year from 1991 to 1996. In Africa, growth in agricultural research spending ground to a halt in the 1990s, with some revival more recently. Spending in China and Latin America, on the other hand, grew in the early 1990s after stagnating in the 1980s. China has been particularly focused on the agricultural biotechnology field, increasing spending from \$17 million in 1986 to nearly \$200 million by 2003 (Huang et al. 2002; Huang et al. 2005).

Other measures of research investments reveal sharp contrasts between wealthy and poor nations. Both developed and less-developed countries increased spending on public agricultural research and development (R&D) per dollar agricultural output in the past few decades. In developed countries, spending on public agricultural R&D per-dollar agricultural output increased to \$2.64 per \$100 agricultural output in 1995 from \$1.53 per \$100 of output in 1975. In the developing world over this interval, growth in research intensities also increased, on average, but the level was much lower and varied between countries. Growth was constant in China, increasing in other parts of Asia and in Latin America, but decreasing significantly in Africa.

While the rates of research expenditures are informative about recent policies, researchers have found the accumulated stock of research capital to be a more relevant determinant of research capabilities. Pardey and Beintema (2001) calculate that the agricultural research resource stock, as a proportion of the value of agricultural output, is at least twelve times larger in the United States than in Africa, given reasonable rates of interest and depreciation.<sup>3</sup>

## 2.2.2 International Funding Organizations

International funding agencies have been established to direct more research resources toward more efficiently serving the needs of poorer

3. For further details, see Wright et al. (2007) and Wright and Pardey (2006) from which this section is largely drawn. See also Pardey, Alston, and Piggott (2006) for a discussion of agricultural research investments in less-developed countries.

nations. Most notably, 1971 saw the establishment of the Consultative Group on International Agricultural Research (CGIAR or CG), an international partnership between governments, private foundations, and civil society organizations that fund and influence the research of fifteen international agricultural research centers (IARCs). The roots of CGIAR are in the 1943 International Agriculture Program, a cooperative effort initiated by the U.S. and Mexican governments with significant support from the Rockefeller Foundation. The Mexican program became the International Center for the Improvement of Maize and Wheat (CIMMYT). The relatively simple funding and managerial structure proved superior to the less-focused agenda of the Food and Agriculture Organization (FAO) in producing major agricultural innovations. It developed high-yielding semidwarf wheat varieties that were more responsive to nitrogen fertilizer. Contemporaneous innovation in the fertilizer sector enabled production of cheaper nitrogen fertilizer from natural gas. The technology package offering cheaper nitrogen fertilizer, and the wheat varieties that could exploit it laid the basis for the Green Revolution in wheat in Mexico and Asia. Desire to broaden the scope of yield increases to other crops prompted the establishment of similarly structured research centers in Colombia, Nigeria, and the Philippines by 1971.

The need for a broader funding base to support the new centers led the International Agriculture Program to enlist the participation of a large range of other donors, including several national aid organizations, the United Nations FAO, the International Fund for Agricultural Development, the United Nations Development Program, and the World Bank, in the establishment of the CGIAR (CGIAR 2008). After establishment, the annual spending of the members of the CGIAR grew rapidly, from \$1.3 million supporting four centers in 1965, to \$141 million supporting eleven centers by 1980, and to \$305 million supporting thirteen centers by 1990. Growth slowed in the 1990s so that spending per center during this decade declined. Between 1994 and 2002, and in response to critiques of the Green Revolution, complacency regarding food supplies, and the conflicting agendas and diverse interests of funding entities, total CGIAR funding dropped in real terms. Investments in germplasm enhancement research declined at 6.5 percent per year during this time, reflecting a shifted focus to policy and environmental objectives. This pattern was mirrored by similar declines in agricultural aid and research funding from the European Community, the World Bank, and the United States Agency for International Development (USAID) from the mid-1980s through the 1990s. More recently, in response to high agricultural prices and a renewed recognition of the importance of an adequate food supply, funding has begun to trend upward again. CGIAR funding was over \$495 million in 2007, and World Bank agricultural lending increased from an annual average of \$1.5 billion in 2002 to \$4.6 billion between 2006–2008. (Wright et al. 2007; Lele 2003; Lele et al. 2003; CGIAR Independent Review Panel 2008; World Bank Group 2009).

## 2.3 A History of U.S. Public Agricultural Support

The U.S. made an early commitment to agricultural research in the form of agricultural institutional innovations adopted from Europe. Economists have emphasized the success of the land grant college system (National Research Council 1995; Huffman and Evenson 2006; Ruttan 1980; Ruttan 1982), noting its contribution to lowered food costs, rural development, and the prominence of U.S. agriculture globally (Adelaja 2003). A lesson embedded in the long history of U.S. public support for agriculture is the importance of a large buildup of research capital stock through sustained investment. In addition, the nationwide adoption of agricultural innovations was encouraged by a decentralized institutional system capable of adapting technology to local environmental conditions, as was incorporated in the land grant colleges and state agricultural experiment stations.

### 2.3.1 The Establishment of U.S. Agricultural Institutions

Spatial environmental variation forms the context in which technology and resources determine agricultural productivity. The expansion of arable land followed by mechanical innovations produced by farmers and blacksmiths drove early increases in U.S. agricultural output (Huffman and Evenson 2006; Sunding and Zilberman 2001). Major increases in yields *per acre* were not achieved until the advances in hybrid seed and agrichemical technology in the 1930s. Until that time, biological innovation focused on disseminating and adapting crops to unfamiliar frontier environments (Olmstead and Rhode 1993).

Human efforts to locate and distribute plant genetic material appropriate for given production environments or meeting particular consumer needs originated long before the groundbreaking discoveries of Mendel and Darwin, not to mention recent work in genetically engineered crops.<sup>4</sup> Heightened recognition of the economic value of plants in the context of the Industrial Revolution and their scientific documentation and classification encouraged the spread of botanic gardens across Europe in the eighteenth and nineteenth centuries. In particular, Britain's Royal Botanic Gardens at Kew excelled in the acquisition, development, and dissemination of economically important plants (Juma 1989). A physician's experimentation with urban plant cultivation in the polluted atmosphere of London during the Industrial Revolution led to the invention of the Wardian case or terrarium, an enclosed container that vastly increased the reliability of international transportation of live plants between the new and old worlds (Schoenermarck 1974).

In the United States, prominent figures such as George Washington,

4. Juma (1989) gives several examples of early plant-collecting expeditions and gardens spanning Ancient Egypt to Japan to colonial explorations of the Americas.

Benjamin Franklin, and Thomas Jefferson all recognized the benefits of acquiring diverse plant resources and endeavored to introduce improved plant varieties into the country. Jefferson himself once wrote, “The greatest service which can be rendered any country is to add a useful plant to its culture” and went so far as to smuggle rice from the Piedmont region of Italy into the United States, sewn into the lining of his coat pockets, when such a crime was punishable by death (Fowler 1994).<sup>5</sup> His enthusiasm for the importance of plant resources was shared by Henry Ellsworth, the first commissioner of the Patent Office and founder of what ultimately became the United States Department of Agriculture. Without congressional approval, Ellsworth distributed seeds and plant material from other lands in order to test and promote their benefits. The U.S. Patent Office thus became the main repository for plant genetic material in the country, relying on the U.S. Navy to import foreign seed and the U.S. Post Office to distribute seeds to farmers through the mail. Producing a number of documents on proven and potential economic benefits of plant resources, Ellsworth championed federal support for agriculture and the creation of an independent national agricultural research bureau. As a result, in 1839, Congress began to formally support seed collection, distribution, and research efforts by establishing the Agricultural Division of the Patent Office, which became the Department of Agriculture in 1862. (Harding 1940; Huffman and Evenson 2006).

This widespread recognition of plant resource benefits plus the dominance of the U.S. farmer population created a favorable political climate in support of the passage of the foundational 1862 Morrill (Land Grant Colleges) Act (7 U.S.C. § 301 et seq) and the 1887 Hatch Act (7 U.S.C. § 361a et seq). The Morrill Act allotted federal land to each state to support the development of a college focused on instruction in “agriculture and the mechanic arts.” (7 U.S.C. § 304). Originally blocked by southern states where education was viewed as a threat to the cheap labor supply, the Morrill Act was passed after the South seceded. The Hatch Act provided additional federal lands to conduct and disseminate research in State Agricultural Experiment Stations (SAESs) associated with land grant colleges. In recognition of the importance of technology transfer mechanisms for realizing the benefits of research, the 1914 Smith-Lever Act established the Cooperative Extension Service to distribute knowledge relevant for the local adoption and application of innovations. These key acts balanced federal and state roles by combining federal financial support with state management for the administration and direction of research. The resulting structure provided an avenue to address local research needs while also exploiting interstate competition to motivate fruitful research. As early as 1888, states began to establish substations that addressed needs distributed at even finer geographic scales (Huffman and Evenson 2006; Ruttan 1982).

5. Thomas Jefferson, *The Works of Thomas Jefferson*, vol. 8, federal ed. (New York: G.P. Putnam’s Sons, 1904–1905). <http://oll.libertyfund.org/title/805>.

The case of hybrid corn exemplifies the advantage of regionally focused agricultural research that benefited both local farmers and consumers generally. This innovation, which originated as a by-product of basic research in genetics conducted at Harvard decades earlier (Troyer 2009), required additional decades of adaptive research after its initial adoption in the heart of the midwest corn belt to spread across the states in which it was ultimately established (Griliches 1957).

The establishment of the SAES system in the United States borrowed heavily from European developments that firmly established the central role of universities and scientists in agricultural development. Justus von Liebig, a German chemist who founded the first modern chemistry laboratory, became one of the forefathers of agricultural science with his 1840 publication *Organic Chemistry in Its Relation to Agriculture and Physiology* (Brock 1997). During this time, agricultural research institutions in the states that eventually formed Germany demonstrated the potential power of a group of experts working on a focused field, highlighted the importance of consistent funding, provided valuable experience navigating the link between science and practice, and demonstrated the merits of interinstitutional competition. By the time of Liebig's death in 1873, the newly united Germany had twenty-five agricultural research stations. The German development of successful university-based agricultural chemistry research laboratories and experiment stations became the model followed throughout the United States and Europe, where numerous agricultural experiment stations were also established during the second half of the nineteenth century. In particular, Rothamsted Agricultural Experiment Station in England, currently the oldest continuously operating agricultural experiment station, was founded by a fertilizer manufacturer in 1843 (Huffman and Evenson 2006; Finlay 1988).

The first U.S. stations continued the heavy emphasis on agricultural chemistry established in Germany, and Samuel W. Johnson, the first director of a U.S. agricultural experiment station, was trained by a founder of the German system. By the time the Hatch Act was passed, fifteen primarily state-funded experiment stations were already in operation.

Major benefits of public research for agricultural productivity in the United States began to accrue only after the research establishment had accumulated a substantial stock of knowledge. Evenson (1980) found that during 1870 to 1925, agricultural productivity was strongly correlated with the total real public-agricultural research spending over the preceding eighteen years. Early advances in U.S. agriculture were largely borrowed from progress made in Europe. It took several decades of development and learning before the U.S. land grant/SAES system had acquired the scientific capacity and research base necessary to become an efficient system of innovation (Huffman and Evenson 2006). Subsequent research has confirmed that stable agricultural funding promotes persistent gains in agricultural productivity (White and Havlicek 1982).

### 2.3.2 Private Interests and the Allocation of Public Funding

Because private research focuses mainly on commercializable technologies with appropriable benefits, the onus is on the public sector to produce basic science and undertake research that may be high in risk, have long lag times, or create unpredictable and nonexcludable benefits (Alston, Pardey, and Roseboom 1998; Stokes 1997; Huffman and Evenson 2006; Just and Huffman 1992). High rates of return to investments in different types of agricultural technologies persist, implying that those investments have overall made excellent use of public funds, but also that the level of funding has been inadequate (Judd, Boyce, and Evenson 1986; Huffman and Evenson 2006). In addition, in cases where public support for research has declined and there are private incentives or IPRs for innovation, some observers have concluded that public research funds have been increasingly directed toward the development of private goods (for example, Knudson and Pray 1991). Economists have warned that heightened private influence over public research agendas may further erode public support for research, thus damaging the system by which basic science and public goods research is produced (Just and Huffman 1992). However, Foltz, Barham, and Kim (2007) found evidence of economies of scale and scope in life science research production of patents and journal articles, particularly in land grant universities, implying synergies may exist in university production of private and public goods.

A second concern related to public funding has been discussed in a number of empirical studies that suggest interregional externalities in the United States significantly affect state research investment levels (Guttman 1978; Huffman and Miranowski, 1981; Rose-Ackerman and Evenson 1985). For example, citing unpublished work, Alston (2002) finds that averaging across U.S. states, over half the measured within-state productivity gains may be derived from the benefits of research investments made elsewhere. Such spillovers, both within and among nations, may contribute to underinvestments in research. In addition, studies by Hayami and Ruttan (1971) and Binswanger and Ruttan (1978) suggest that nationally or globally, consumers are the main beneficiaries of agricultural research because low price elasticity of demand for agricultural products means that higher productivity achieved by innovation will translate into lower prices (Guttman 1978). However, in a world of highly efficient global transportation, the relatively small share of benefits from lower prices that accrues to consumers in a single state tends to limit within-state consumer support for agricultural research that increases national or global productivity (Rose-Ackerman and Evenson 1985).

For region-specific production-oriented research (especially on crops as opposed to animals), the negative price response on international markets may be negligible. Local farmers tend to get a substantial share of the ben-

efits of this type of research, given the level of other research activity. Political support tends to be high for region-specific innovation, suggesting that farmers have substantial influence on relevant research spending. Empirical studies have found that U.S. state spending on agricultural research significantly and positively correlates with state characteristics such as per capita income, the share of rural population, the number of large farms, the political influence of farmers, and the number of firms producing agricultural inputs, while spending is negatively influenced by the ability to adopt technology produced in other states (Rose-Ackerman and Evenson 1985; Guttman, 1978; Huffman and Miranowski 1981). In developing countries, on the other hand, underinvestment in regionally specific crops such as cassava and sweet potatoes in the 1970s relates to the relatively low influence of staple food producers and small farmers on research agendas (Judd, Boyce, and Evenson 1987).

## 2.4 Intellectual Property for Agricultural Innovations

### 2.4.1 Methods for Protecting Intellectual Property Rights in Agriculture

Beginning with the 1930 Plant Patent Act, the United States has created a number of institutional innovations in the form of intellectual property rights to accommodate the needs of different agricultural technologies. The eligibility criteria, duration, and nature of rights conferred vary across these IPRs, and a single innovation may be protected under multiple mechanisms under the same or different legal jurisdictions. The first IPR specifically for plants was introduced by the 1930 Plant Patent Act, allowing plant patents for new and distinct varieties of most asexually propagated plants, while the U.S. Department of Agriculture (USDA) administers the separate Plant Variety Protection Certificates (PVPCs) for sexually reproduced plant varieties, in accordance with the 1970 Plant Variety Protection Act (PVPA). United States legislators based the PVPA on the International Convention for the Protection of New Varieties of Plants (UPOV)—an agreement established in 1961 by a group of Western European countries that lays out a model system for plant breeders' rights, which was itself influenced by the United States Plant Patent Act of 1930.

Subsequently, the controversial ruling of the 1980 *Diamond v. Chakrabarty* case (*Diamond v. Chakrabarty* 447 US 303, 1980) confirmed the applicability of utility patents for living organisms in the United States (*Ex parte Hibberd* 227 USPQ 433 [Bd. Pat. App. & Int. 1985]). Since the decision, utility patents have been applied to plant varieties, genetically engineered organisms, processes for expressing transformations, genes, traits, and materials. The 2001 *J.E.M. v. Pioneer* Supreme Court case confirmed the legality of joint protection under utility patents and a PVPC or a plant patent (*J.E.M. AG Supply v. Pioneer Hi-Bred International* 122 S. Ct. 593, 2001).

Trade secrets, trademarks, and geographical indications (GIs) may also apply to agricultural innovations. Legally a right based on state common law, trade secrecy can be invoked by firms that can demonstrate sufficient efforts to protect proprietary information of commercial value. It is frequently relied upon by innovators prior to obtaining a patent or other IP protection (Friedman, Landes, and Posner 1991) but has high value independent of patenting; important surveys have shown that innovators in most industries rank secrecy higher than patenting for effectively appropriating commercial value (Levin et al. 1987; Cohen, Nelson, and Walsh 2000). The model trade secret law, known as the Uniform Trade Secrets Act, has been adopted by forty-six states. Trade secrecy has been more important recently in agricultural biotechnology research because advances in biotechnology have improved detection of infringement (Boettiger et al. 2004).

To the extent that bioenergy development relies upon plant innovation, we can expect most of the preceding mechanisms (and their drawbacks, discussed in the following) to be relevant for energy technology. A common area of confusion concerns the jurisdiction of IPRs. It is important to note that a patent or PVPC can be enforced only in the jurisdiction in which it is granted (Taylor and Cayford).<sup>6</sup> While the Trade-Related Aspects of Intellectual Property Rights agreement (TRIPs) among the World Trade Organization (WTO) members mandates minimal standards for all types of IPRs, only copyright has virtually global reach, under the Berne Convention for the Protection of Literary and Artistic Works, which is largely incorporated in the WTO TRIPs agreement.

#### 2.4.2 The Private-Sector Response

The private sector response to the new opportunities and incentives in agricultural biotechnology has been focused and forceful. Since 1987, over 55 percent of all field trials for genetically modified (GM) crops have been on corn and soybean varieties. Global GM crop value and planted area is almost entirely in soybeans, corn, cotton, and canola (James 2008; Runge and Ryan 2004). Monsanto has become the dominant firm in generation and diffusion of agricultural biotechnology, concentrating its activities on corn, soybeans, and cotton incorporating herbicide resistant “Roundup Ready” technology and pest-resistant traits based on crystal proteins derived from samples of *Bacillus thuringiensis* (Bt) (Lemarié 2001). It is unlikely that public research institutions could have matched the efficiency and scale of Monsanto and other leading firms in these activities. For example, in 1998,

6. The well-publicized case of “Golden Rice” transformed to include provitamin A, has been characterized as subject to scores of widely held patents and as an excellent example of private-sector collaboration in licensing these patents for use in poor rice-consuming countries. In fact, few if any of the patents were relevant to production or use of the technology in major poor rice-consuming countries; licenses related mainly to material transfer agreements. (See Binenbaum et al. 2003).

Monsanto spent \$1.26 billion in agricultural biotechnology R&D, eclipsing the total CGIAR investment of \$25 million in agricultural biotechnology that same year (Pardey and Beintema 2001).

#### 2.4.3 IPR Limitations and Drawbacks

While the most popular modern rationale for granting IPRs is that they motivate technological innovation and dissemination by at least partially privatizing associated social benefits, the experience in agriculture shows both the strengths and the limitations of IPRs in a well-balanced system of dynamic, creative research. First, private research has not been (and likely never will be) a complete substitute for public agricultural research (Alston, Norton, and Pardey 1995). While the recent strengthening of intellectual property rights in the United States opened the way for increased private participation in basic plant breeding research by major firms such as Monsanto and Pioneer (Falck-Zepeda and Traxler 2000), the private sector primarily performs applied research with the goal of producing a profitable technology or product. Private-sector research critically depends on the public sector to produce the “building blocks” for technology (Alston, Pardey, and Roseboom 1998; Stokes 1997; Huffman and Evenson 2006; Just and Huffman 1992).

Economists have recognized that the intellectual property protection of research at public institutions might erode the provision of such public goods. For example, Just and Huffman (2009) note that while the 1980 Bayh-Dole Act led to a jump in university patenting (from less than 400 patents per year before Bayh-Dole to 1,100 per year by 1989 and over 3,000 per year in the 1990s), the act may have reduced the pool of basic research supporting private research, shifting the focus of public research toward shorter-term incentives such as patents, at the expense of future public goods research.

Furthermore, there appears to be great variation in private responses to different forms of intellectual property. While Fuglie et al. (1996) found that in the United States, private investments in agricultural biotechnology increased fourfold (nominal) in the first twelve years after the *Diamond v. Chakrabarty* ruling, Alston and Venner (2002) were unable to find evidence of increased private-sector investments in wheat breeding as a response to the PVPA, which they conclude is more relevant to marketing than research.

#### 2.4.4 Anticommons in Agricultural Research and Market Concentration

There is mounting evidence that multiple, mutually blocking intellectual property claims on inputs are hindering access to research tools that can be incorporated in the marketed products of agricultural research (Wright and Pardey 2006; Pardey et al. 2007). The rising application of IPRs to plant components and processes imposes high transaction costs for researchers

who must acquire or license fragmented proprietary inputs to develop and commercialize a single downstream innovation.

Agricultural economists have long been concerned that patents on locked-in but otherwise noncrucial genetic technologies have been retarding innovation and affecting the market structure of private research. In the field of plant biotechnology in particular, where ownership of the genes, markers, or promoters incorporated in a single innovation is fragmented, upstream IPR-holders, unwilling to allow commercialization of varieties using their property, have in some instances foreclosed university development of new crops or technologies.<sup>7</sup> The broader economics profession has become focused on these issues more recently, due to growing problems with blocking patents on embedded software (Bessen and Hunt 2003; Lemley and Shapiro 2005, 2007; Cohen, Nelson, and Walsh 2000). The Supreme Court appears to have acknowledged this problem in its *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 [2006]), which reduced the ability of holders of blocking patents to use the threat of injunction to extract high royalties from infringers.

In a 2003 *Science* article signed by fourteen university presidents, chancellors, and foundation presidents, the authors highlight the negative effect of intellectual property rights on “freedom to operate” in agricultural research (Atkinson et al. 2003). In fact, universities themselves appear to have contributed to the problem by insisting on the use of material transfer agreements (MTAs) governing exchanges of research materials between researchers, to protect university intellectual property rights and limit university liability.

A recent survey indicates that, for scientists focused on their own research goals rather than commercialization of innovations, the problems associated with MTAs are more salient than concerns about patent infringement. Over a third of agricultural biologists at land grant universities reported delays in obtaining access to research tools in the five years preceding the survey, with a mean of two delays and a mean duration of over eight months (Lei, Juneja, and Wright 2009). They attributed the vast majority of these delays to problems experienced by university administrators in negotiating MTAs. Researchers reported responding to hold ups by substituting tools, sometimes of lower efficacy, and, in some cases, by abandoning the project altogether. Although a substantial portion of the sample were patentees, most respondents view intellectual property protection as a net negative for progress of research in their fields.

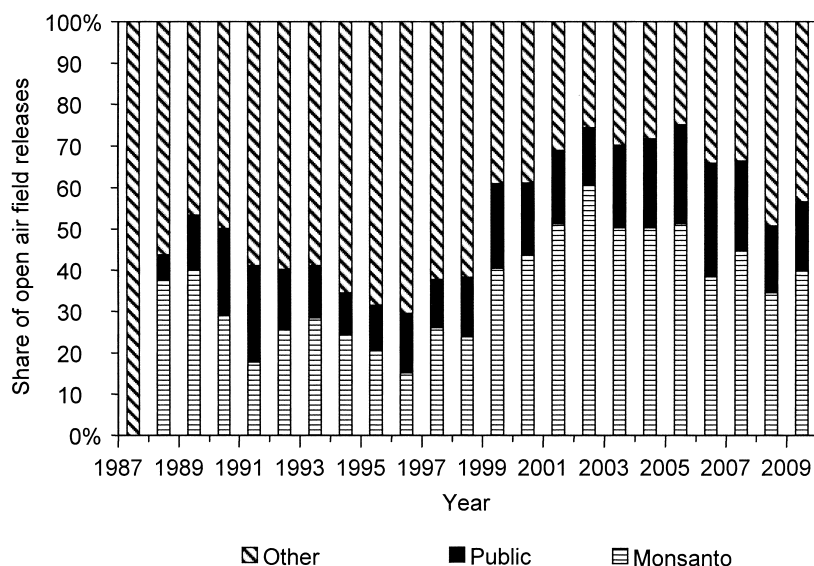
7. Examples are the cases of the genetically engineered (GE) tomato and herbicide-resistant strawberry at the University of California at Berkeley, an herbicide tolerant barley, and an herbicide tolerant turf grass at the University of Michigan (Wright 1998; Wright et al. 2007; Erbisich 2000). More recently, commercialization of transgenic hypoallergenic wheat technology has been blocked by a combination of patent protection and regulatory costs (P. Lemaux, personal communication). Generation of further examples is unlikely, given that independent university implementation of new transgenic technologies is widely regarded as economically infeasible due to the combined effects of blocking patents and regulatory costs and delays.

Follow-up interviews revealed that scientists view university administrators as principally concerned with protecting their institutions' financial interests, including protecting claims to potential intellectual property value and reducing exposure to potential liability. Indeed, Glenna et al.'s (2007) survey reveals that land grant university administrators, on average, rate the provision of new funds and research support as the greatest advantage of university-industry research collaborations but believe that scientists choose projects based on research enjoyment and scientific curiosity.

Private firms in agricultural biotechnology, unlike bench scientists, cannot ignore infringement issues. Often, firms have to commit to commercializing a product involving many patents, subject to time-consuming development and regulatory approval processes, and thus exposed to hold up even by owners of nonessential technologies that become "locked in" as innovation progresses. Firms have established freedom to operate largely by merger and acquisition of patentees rather than by in-licensing.

Since the mid-1990s, a relatively dramatic series of industry purchases led to concentration of the agricultural biotechnology sector. As a result, a relatively modest number of private hands controls a major portion of patents in the field (Murray and Stern 2007; Marco and Rausser 2008). In effect, the threat of an anticommons with many parties capable of stopping a line of business in progress via an injunction has been avoided by a strategy that does not rely solely on in-licensing, but instead deals with potential hold ups by acquisition or merger. The European conglomerate AgrEvo acquired Plant Genetic Systems (PGS) for \$730 million, \$700 million of which accounted for the estimated value of PGS-owned patents on plant traits. Perhaps more extreme was Monsanto's 1997 purchase of Holden's Foundation Seeds for \$1.1 billion, when Holden's gross revenues were just \$40 million. In 1998, Monsanto paid \$2.3 billion to acquire the 60 percent of DeKalb Genetics Corporation, which it did not already own. DeKalb, the owner of a major corn transformation technology, had a 1997 total revenue of \$450 million (United States Department of Justice 1998; Marco and Rausser 2008). The following year, DuPont purchased the remaining 80 percent of Pioneer Hi-Bred International that it did not already own for \$7.7 billion (Marco and Rausser 2008).

Based on USDA data between 1988 and 2000, Brennan et al. (2005) found that when including mergers and acquisitions, the top ten firms (rated by number of patents held) owned more than half of the agricultural biotech patents granted through 2000, whereas if patents acquired via purchases and mergers are excluded, the share owned by the top ten firms would be only one-third. One firm (Monsanto) currently accounts for almost two-thirds of all public and private plant biotech field trials in the United States. King and Schimmelpennig (2005) show that by 2002, six firms (Monsanto, Dow, DuPont, BASF, Bayer, and Syngenta) controlled over 40 percent of the agricultural biotech patents owned by the private sector, with the subsidiaries



**Fig. 2.1** Yearly shares of genetically engineered organism controlled open-air field releases

*Source:* Source data from U.S. Department of Agriculture, Animal and Plant Health Inspection Service. <http://www.aphis.usda.gov/biotechnology/status.shtml>.

acquired by these firms through mergers and acquisitions responsible for 70 percent of their total patent stocks. Concentration in the innovation market has continued to increase; USDA data on field releases of new genetically modified organisms show Monsanto's dominance in the testing of new GM products (figure 2.1).

Thus, the need to ensure freedom to operate in an environment of initially fragmented and decentralized proprietary claims enhanced the normal tendency of firms in a new industry to consolidate in order to avoid transaction costs, exploit increasing returns to scale, and establish market power (Rausser 1999). Notably, Marco and Rausser (2008) empirically show that in the plant biotechnology industry, the enforceability of a firm's patent portfolio is a good predictor of participation in consolidation. Additionally, the authors note that a number of mergers, including Monsanto-Calgene and Monsanto-DeKalb, occurred in the context of patent infringement litigation.

It appears to be true that IP-induced consolidation in agricultural biotechnology is negatively affecting the very same innovation and dissemination incentives that justified IPRs in the first place. By blocking new firms from entering, market consolidation may suppress future innovation (Barton 1998; Graff et al. 2004). Lack of freedom to operate particularly affects nonprofit research institutions, which cannot solve the problem by merger or acquisition of blocking firms.

#### 2.4.5 Attempts to Alleviate the Anticommons: BiOS and PIPRA

Early recognizing the threat from lack of freedom to operate, public and nonprofit parties have formed institutions that endeavored to construct alternative technologies that could circumvent patents blocking key transformation technologies. These include the Biological Innovation for Open Society (BiOS) and Public-Sector Intellectual Property Resource for Agriculture (PIPRA) initiatives, which have both attracted widespread attention from biologists in the biomedical sector.

Inspired by the successful open source models in software, BiOS, an open source initiative arising out of the nonprofit biotechnology firm CAMBIA, was formed to license rights to use protected innovations, including those that could substitute for technologies protected by blocking patents, in exchange for a commitment to share any downstream technologies with all BiOS members (Jefferson 2006). It appears that this bold initiative has not functioned as anticipated. Participants willing to access CAMBIA technologies offered by BiOS are apparently reluctant to follow the lead of CAMBIA and offer their own technologies under an open source license.<sup>8</sup> A more fundamental problem might be that any success achieved in open source software using copyright licenses to prevent appropriation of the core technology might be difficult to replicate in a system that relies on patent protection (Boettiger and Wright 2006).

Founded with support from the University of California and the Rockefeller and McKnight Foundations, PIPRA was intended to act as a clearinghouse for information about patenting and licensing of technologies originating in the public and nonprofit sector. The goal was to facilitate commercialization and adoption of new technologies in less-developed countries and of “minor” crops such as the fruits and vegetables produced in California. The common problem of both target groups was that their markets were too small to attract much interest from the major agricultural biotechnology corporations. The Public-Sector Intellectual Property Resource for Agriculture’s intellectual property strategy, similar to that of CAMBIA, was to protect proprietary claims for commercial use in developed countries (consistent with federal policy expressed in the Bayh-Dole Act of 1980 and with the aims of university licensing objectives), while simultaneously providing access to users in less-developed countries and producers of minor crops and reserving public and nonprofit institutions’ rights to use the inventions in developing-country applications.

While these initiatives yielded notable scientific advances (see for example Broothaerts et al. 2005), neither has yet furnished an efficient and completely unencumbered biotechnology package that is a good substitute for proprietary blocking technologies that received wide market acceptance. Indeed,

8. Strictly speaking, the license was not open source as participants are charged on a sliding scale based on size.

the experience of these initiatives constitutes strong evidence of the blocking capacity of proprietary claims over key elements of plant transformation. The lack of attractive unencumbered alternative technology sets may be the main reason why efforts to encourage collaboration in open source type ventures have not made more headway. However, had they already succeeded at this level, the regulatory hurdles would still have loomed large.

Although attempts to offer unencumbered alternatives to key technologies are continuing, both CAMBIA and PIPRA are currently emphasizing provision of easily accessible information to researchers in developing countries and nonprofit institutions regarding freedom to operate within the context of patenting as the dominant paradigm. They offer other services that can assist public and nonprofit research institutions in navigating patent thickets and identifying intellectual property issues before they become serious problems. The Public-Sector Intellectual Property Resource for Agriculture provides educational and informational services to facilitate navigation of the IP landscape and promote innovation-enabling collaboration as well as a valuable IP handbook. CAMBIA offers, among other services, its “Patent Lens” to provide accessible guidance as to the patent landscape relevant to the plans of researchers in biotechnology (Graff et al. 2003; Atkinson et al. 2003; Delmer et al. 2003).

## **2.5 Public-Private Collaborations**

Channeling fruitful basic research from the public sector into applied research efforts by the private sector is a key, though problematic, step in the innovation “pipeline.” Economists have often highlighted the potential for public-private collaborations to bridge this gap and have argued for their critical role in spreading agricultural biotech innovations for consumers in developing countries (Rausser, Simon, and Ameden 2000; Byerlee and Fischer 2002; Tollens, Demont, and Swennen 2004; Parker and Zilberman 1993). In light of slowed federal research support between 1980 and 2000, collaborations with the private sector have become increasingly attractive for public-sector researchers. However, public-private collaborations do not currently account for a large portion of agricultural research in practice. A few examples illustrate of the potential benefits and drawbacks of these agreements.

Overcoming conflicts between private-sector interests and public responsibilities is a key challenge to fruitful public-private collaboration. In their 1986 analysis of the Canadian malting barley industry, Ulrich, Furtan, and Schmitz (1986) find that the availability of grants from and collaborative work with the brewing industry led the public sector to pursue traits to improve malting quality. Although the research yielded both public and private benefits, the collaboration siphoned public resources away from yield-related traits. Ulrich and colleagues calculate social gains would have

been 40 percent higher or more had public researchers focused only on yield-related traits. Note that this example is drawn from an era when intellectual property protection had yet to strongly influence the direction of research activity in agriculture.

The subsequent proliferation of patenting in universities has increased the potential for diversion of the university agenda toward private monetary returns and away from the direct public interest. Such a real or apparent shift in focus of public institutions away from public goods research might further reduce public support for universities (Just and Huffman 2009), even if the ultimate motive is to ensure survival of the institution in an era of public cutbacks. Supporting this argument are Glenna et al.'s (2007) findings that land grant university administrators rate further support for research and increased funding as the main benefits from university-industry collaborations and potential for conflicts of interest as their main drawback.

An innovation in private support for public agricultural research was established by the 1998 agreement between the University of California at Berkeley and the Novartis Foundation. The latter was selected by Berkeley as partner after competitive bids from several firms. The agreement generated much opposition, motivated by opposition to the genetic transformation technologies involved in the research to be funded, by objections to the decision-making procedures that led to the partnership, and by concern that the university was selling its plant biology agenda to the highest bidder and that new private-sector influence might distort the direction of university research. The Novartis Foundation had the right to a vaguely specified subset of the research results in plant and molecular biology and had a minority of seats on the committee allocating project resources (Busch et al. 2004; Rausser 1999).

In hindsight, the \$25 million received from the Novartis (later Syngenta) Foundation appears to have been associated with an increase in the level and the diversity of funding of Plant and Molecular Biology at Berkeley, with little if any affect on research direction. It appears that no valuable patents were obtained by the funder. Indeed, a similarly generous arrangement is unlikely to be achieved in future public-private partnerships in biotechnology. Nevertheless, an *ex post* review (Busch et al. 2004) concluded, among other things, that the agreement did affect the processes leading to the initial denial of tenure (later reversed) to a prominent critic of the agreement. Even relatively hands-off funders, it seems, create the hazard of a threat to academic freedom in the university.

Subsequently, Berkeley has become the lead partner (with Lawrence Berkeley National Laboratory and the University of Illinois at Urbana-Champaign) in the \$500 million Environmental Biosciences Initiative (EBI), funded by British Petroleum and aimed at developing means of converting cellulosic biomass to a substitute for petroleum. Some of the intellectual property provisions of this agreement are more favorable to the funder than

in the Berkeley-Novartis agreement, but the EBI has not generated the same degree of opposition on campus.

In another model of public-private collaboration known as Cooperative Research and Development Agreements (CRADAs), the United States provides research funds to national laboratories contributing nonfinancial resources in order to produce a commercial technology in collaboration with a private firm. Any proprietary material may be owned by both parties, but the private collaborator gets priority in licensing (Day-Rubenstein and Fuglie 2000). Since 1987, the USDA has formed at least 700 CRADAs with private firms. The CRADAs have produced and commercialized at least a handful of important innovations (Day-Rubenstein and Fuglie 2000).<sup>9</sup> In accordance with the goal of connecting the basic and applied ends, CRADA research focuses on a “middle ground” between public and private goods (Day-Rubenstein and Fuglie 2000). However, concerns that CRADAs and other public-private collaborations divert funds from public goods or basic research to more applied research highlight the need to carefully design collaboration agreements and to consider the unintended effects of undertaking collaborations (Just and Rausser 1993). In addition, claims that CRADAs provide unfair advantages for the private partner (even if, as in the case of Taxol, the contract was awarded by auction) illustrate that any agreement mechanism providing profits high enough to incentivize private investment in a risky enterprise will be met with critical political comment if the CRADA succeeds.<sup>10</sup>

Public-private collaborations also tend to be a target of public scrutiny that can negatively influence the credibility of government or other public entities to uphold their public responsibilities. In particular, public-private collaborations that do not convincingly protect public decision making from improper influence weaken the regulatory role of government. For example, widespread public distrust of government’s ability to regulate genetically modified organisms in Europe must be considered in the context of several major government failures to protect consumer safety. In particular, concerns that governments might prioritize industry welfare over public safety were fueled by poor regulation both paving the way for and in response to incidents such as the Chernobyl disaster and the spread of bovine spongiform encephalopathy (BSE), commonly known as “mad cow disease” (Park 1989; BBC News 2000; CNN 2001).

9. Most notably, a CRADA is responsible for production of the anticancer drug Taxol, based on the bark of the Pacific yew tree, and involving the USDA and its Forest Service (Koo and Wright 1999). This highly successful drug is used in treatment of ovarian and breast cancers. In the agricultural field, CRADAs have been associated with the development of a number of pest and disease controls, a chicken vaccine for Marek’s disease, and a chemical compound to reduce soil erosion (Day-Rubenstein and Fuglie 2000).

10. Even prominent economists will make such comments. See, for example, the claim by Boldrin and Levine (2008, chapter 1) that any returns above “break-even” were superfluous to the incentive needed for Boulton and Watt to produce their celebrated steam engine.

On the other hand, research consortium models such as those adopted by the Latin American Maize Project (LAMP) and the Germplasm Enhancement of Maize Project (GEM) have been lauded for productively balancing public goods research with commercial viability (Knudson 2000). Initiated by then Pioneer CEO William Brown, LAMP was established in 1987 as a cooperative effort to regenerate and utilize maize landraces, supported by funding from Pioneer and resources from the United States, eleven Latin American countries, and CIMMYT (Knudson 2000; CIMMYT 1997). Of the 12,000 accessions evaluated by LAMP, 51 accessions plus 7 donated from DeKalb formed the source material for the USDA-ARS GEM Project. Jointly funded by an array of private, public, and nonprofit collaborators and utilizing research from federal programs, state programs, and private industry, GEM's structure recognized needs from the local to national levels and maintained industry support through appropriate IPR provisions (Knudson 2000).

## 2.6 Government Regulation

From an economic perspective, government regulation is necessary to correct for externalities such as those related to environmental quality, food safety, and public security. Aside from immediate social, environmental, and economic costs, past regulatory disasters and their aftermaths demonstrate that ineffective or disingenuous government practices create a secondary problem of reduced public confidence and support. On the other hand, the costs of regulatory compliance can discourage innovation and technology adoption. The challenge to government is to strike a balance between supporting technological improvement and protecting public safety.

### 2.6.1 Public Trust

Experience in agriculture demonstrates that a poor track record or a handful of extreme cases may durably erode public confidence in the government's ability to prudently select and monitor new technologies. The U.S. Three Mile Island incident and the Ukrainian Chernobyl disaster caused significant curtailment of nuclear power projects in Sweden and Italy, respectively, and weakened public trust in government officials and scientists alike (Weingart 2002). Studies of government regulation and public perceptions drew parallels between the cases of nuclear power and agricultural biotechnology (Sjöberg 2001; Poortinga and Pidgeon 2005). Indeed, Chernobyl's contamination of European foods was initially denied by many governments, and Chernobyl's effect on public perceptions of technological risks, government competence, and the reliability of public assurances has contributed to the prohibition of GM foods in Europe (Vogel 2001; Lusk, Roosen, and Fox 2003).

Past crises in food safety have also demonstrated the consequences for

public health, government reputation, and industry. After the BSE outbreak was recognized in Britain, European regulatory systems were further discredited by the British Ministry of Agriculture's insistence that BSE posed no threat to human health and the French government's slow response to BSE (Vogel 2001; Daley 2001). The direct effects of BSE on beef consumption and the subsequent trade bans caused heavy losses to beef producers. The containment costs borne by the British government reached £700 million per year in 1996, or about 0.1 percent of gross domestic product (GDP) (Gollier, Moldovanu, and Ellingsen 2001). Another example is the release by the European multinational firm Aventis of genetically engineered corn, StarLink, into the U.S. food supplies, when the corn was approved only for feed. Fortunately, no health damage to consumers was detected. Aventis agreed to pay \$110 million plus interest to farmers whose crops were contaminated (O'Hanlon 2004; Pollack 2001; Shuren 2008) to compensate for adverse effects on prices of exports due to fears of harmful contamination.

The StarLink case notwithstanding, the lack of major food-related regulatory disasters in recent U.S. experience likely has contributed to greater public acceptance and employment of agricultural biotechnology in the United States relative to Europe (Vogel 2001; Nelson 2001). Note that the effects on public perception are not confined by national boundaries and can become confounded with strategic market maneuvers. For example, China changed its plans to approve GM foods when the StarLink incident cooled demand for GM corn by importers Japan and South Korea (Cohen and Paarlberg 2004). In North America, the U.S. wheat industry compelled the agricultural biotech firm Monsanto to release the first genetically engineered spring wheat in the United States and Canada, or not at all. The technology was shelved in both countries when Canada rejected the product (Berwald, Carter, and Gruère 2006).

Considering the commonalities of the preceding cases, we would expect public trust problems to be most influential for technologies related to foods, with uncertain but potentially widespread and irreversible risks, and in cases where the benefits are dubious from the consumer viewpoint (Arrow and Fischer 1974; Brush, Taylor, and Bellon 1992). Bioenergy products, especially if they are not related to foods or feeds, might be better accepted due to the widespread recognition of the benefits of a cleaner and more secure energy supply.

## 2.6.2 Nonadaptive Regulatory Systems and Unintended Consequences

While negligent regulatory systems can precipitate public safety disasters, the costs of extremely restrictive regulatory systems are less transparent but may also be severe. They can impede the application of technology, implying missed opportunities to realize the benefits of research and innovation. Cases in various countries show that both lack of regulatory capacity and

public distrust may lead to regulatory procedures that slow adoption of technology. In addition, relatively stringent regulatory standards for a particular set of technologies create an advantage for substitutes.<sup>11</sup> Thus, government safety standards have indirect but important effects on market structure.

The case of U.S. agricultural chemical regulation illustrates some of the trade-offs related to standard setting. Ollinger and Fernandez-Cornejo (1995) found that between 1972 and 1989, in response to three amendments tightening regulatory requirements, industrywide research spending increased, but the share of regulatory costs in total R&D increased from 18 percent to an astounding 60 percent. The authors also found that each 10 percent increase in regulatory costs corresponded to a 2.7 percent reduction in the number of new pesticides products but also decreased the negative environmental qualities of the pesticides produced. Regulatory costs affected the market by increasing foreign capture of market share, reducing the number of small firms and broadening opportunities for biological pesticides and genetically modified organisms (GMOs). As this example shows, the net effects of regulation are hard to pin down.

Many governments have recently enacted regulatory standards for the release of agricultural biotechnology to address concerns about potential ecological and food safety risks. While some scientists fear the standards for transgenic crops do not adequately inform us about potential risks, economists have argued that these regulations hinder implementation of important technologies (Fuglie et al. 2006; Zilberman 2006; Pardey et al. 2007; Cohen and Paarlberg 2004). For example, lack of mutual recognition of regulatory standards and test results requires duplication of field trials for transgenic crops in some East and South African countries, without generation of new information between test trials, and has slowed commercialization (Pardey et al. 2007; Thomson 2004).

In India, regulatory authorities approved the first field trials for Bt transgenic cotton in 1998. Although the crop had been grown as early as 1996 in countries such as the United States, Australia, South Africa, Mexico, Argentina, and China, outcry by nongovernmental organization (NGO) groups claiming to represent farmers influenced regulatory officials to delay final approval for Bt cotton until 2002—about six months after authorities discovered some 500 Gujarati farmers had already illegally planted Bt cotton seeds. Public plans to destroy the standing crop were abandoned after demonstrations by thousands of farmers. Even more extreme is the case of a transgenic mustard variety that underwent field trials in India for at least nine years (Cohen and Paarlberg 2004) but is yet to be commercialized. If biofuel technology utilizes transgenic crop innovations, inflexible and

11. Graff and Zilberman (2007) argue that the interests of European pesticide and herbicide producers have influenced the development of negative attitudes on that continent to agricultural biotechnology.

inefficient regulatory systems could significantly defer this alternative fuel's production and utilization.

For transgenic food crops in the United States, the Food and Drug Administration, Environmental Protection Agency, and USDA Animal and Plant Health Inspection Service all have regulatory authority concerning potential risks related to food safety, pesticidal properties (if applicable), and field testing, respectively (Vogt and Parish 1999; Fuglie et al. 1996). While public opinion and government policy create a less hostile environment for GMOs relative to the regulatory environments in areas such as Europe and Africa, some economists maintain that U.S. regulation for transgenic crops is unduly restrictive, relative to regulations for competing technologies (Miller and Conko 2000).

In industries subject to market concentration, such as the agricultural biotech industry, insights from capture theory suggest pushes for regulatory reform are likely not forthcoming. High compliance costs associated with stringent regulatory standards may even be preferred by firms with market power because such standards create barriers to entry and build consumer approval (Zilberman 2006). For example, in 1925, California adopted the One-Variety Cotton Law, requiring nearly all California cotton growers to plant a single USDA-controlled cotton variety in the interests of quality control. In their 1994 analysis of the regulation, Constantine, Alston, and Smith (1994) argue that any initial benefits were lost over time due to unforeseen technological changes, institutional reforms, and regulatory cost increases. While the industry was partially deregulated in 1978, private beneficiaries of the regulation successfully resisted further reform for a number of years, despite the regulation's large social costs.

Economists have critiqued the precautionary principle (cited by European GMO regulators) for failing to respond to new information (Gollier, Moldovanu, and Ellingsen 2001; Vogel 2001). In agricultural biotechnology, the firm bears the costs of regulatory compliance. Although farming of biotech food crops has grown rapidly in recent years, the still narrow breadth of the market may be influenced by regulations slowing commercialization of new transgenic traits beyond herbicide tolerance and Bt-based insect resistance in corn, soybeans, canola, and cotton (Pardey et al. 2007).

## **2.7 Technology Adoption**

Timely adoption is necessary in order to realize the benefits of innovation. The most relevant aspect of adoption in the agricultural sector is the dispersed application and management of technologies adapted to local environments. The period between technology development and widespread adoption by farmers can be quite long (and infinite for technologies that never take hold). Griliches's (1957) work on hybrid corn adoption and subsequent empirical studies showed that the rate of technology diffusion increased

with profitability from its adoption.<sup>12</sup> A multitude of economic studies has taught us that factors such as risk and heterogeneity are crucial determinants of adoption. In addition, the canon of relevant political economic work highlights the dependence of adoption on consumer preferences, political interests, and the appropriateness of technology. With respect to energy innovations, we might expect analogous issues to arise for technologies with similarly dispersed applications. Again, production of biofuel crop technologies is a clear example, but prior adoption research might also be relevant for technologies like cookstoves for less-developed countries, mini or micro hydroelectric systems, wind farms and building efficiency innovations, all of which could well have user-dependent outcomes affected by the heterogeneity of regulations and of the natural environment.

### 2.7.1 Profitability and Heterogeneity

The recent increases in market concentration due to strengthened IPRs in agriculture (as discussed in the preceding) might well imply oligopoly pricing that reduces adoption of technologies integrating proprietary components. However, the dispersed use of agricultural technologies in heterogeneous environments constrains the extent of noncompetitive pricing if spatial price discrimination is costly. Thus, even firms exercising market power may have to employ low-price policies in order to encourage rates of technological exposure and adoption that make the discounted value of the innovation positive and attractive to investors. The empirical study by Falck-Zepeda et al. (2000) on markets for transgenic soybeans and cotton estimated that firms Monsanto and Delta and Pine Land (D&PL) adjust price to keep about 21 percent of the benefits generated from these innovations, while about 59 percent of these benefits flow to farmers, despite essential monopoly power by Monsanto and D&PL. A follow-up study by Oehmke and Wolf (2004) estimated heterogeneity in technology adopters to account for 80 percent of farmer rents. Although the question has yet to be addressed seriously, it appears that if “degraded” lands are favored for biofuels production due to low carbon release upon cultivation, their heterogeneity could well reduce the speed of technology adoption, thus reducing monopoly rents and perhaps investment in optimizing the technology.

When the newest technology is a substitute for their current technology, farmers will not adopt the new technology unless the net benefits of switching are positive, leading to an additional constraint on oligopoly pricing for the new technology (Pray and Fuglie 2001). If the current rate of innovation is rapid, the loss of the option to wait and use an even better prospective technology may increase the cost of adopting the current best technology when the sunk costs of learning or complementary investment are significant.

A large body of research on heterogeneity and adoption demonstrates

12. Feder, Just, and Zilberman (1985) provide a summary of empirical work.

that a number of other factors moderate the profitability of adoption at a given time. While a full review is beyond the scope of this chapter, we briefly provide a few examples to illustrate the diversity of this work. Studies such as those by David (1969), Feder (1980), and Ruttan (1977) discuss the influence of farm size (perhaps as a proxy for wealth or increased access to credit, information, or production inputs) on the rate of technology diffusion or level of individual adoption for various types of technology and institutional frameworks (Feder, Just, and Zilberman 1985; Qaim et al.). The findings from a recent paper by Fernandez-Cornejo, Hendricks, and Mishra (2005) imply that small U.S. farms that supplement farm income with off-farm activities are more likely to adopt time-saving technologies such as herbicide-tolerant crops or conservation tillage. Examples of research evaluating the effect of heterogeneity in land quality on adoption decisions include Caswell and Zilberman's (1986) analysis of water-holding capacity and irrigation technology and Rahm and Huffman's (1984) article relating soil quality to adoption of corn varieties. Recently, access to information and social capital have been highlighted as determinants of adoption of crop varieties such as hybrid corn and wheat, mechanical innovations such as tractors, and livestock technologies, to name a few (Skinner and Staiger 2005; Matuschke, Mishra, and Qaim 2007; Abdulai and Huffman 2005). Finally, a plethora of research discusses the role of risk and uncertainty associated with adopting new technologies.

Another important insight is that technologies that reduce input use per unit output may, via price effects, increase total input demand with respect to the efficiency-adjusted unit, as observed in studies of water or energy use in modern irrigation technology (Caswell and Zilberman 1986). Thus, yield-enhancing varieties of biofuels crops may increase, rather than reduce, the area planted to such crops.

### 2.7.2 Policy Implications

Given the heterogeneity of the myriad of moderating factors, the adoption of agricultural technologies over extensive geographic areas is enhanced by directed local efforts and adaptations (Knowler and Bradshaw 2007). Key decisions for government are whether and how to alleviate risks and high fixed costs associated with adoption. The relevance of risk is dependent upon farmer perceptions and the type of technology (for example, see Fernandez-Cornejo, Beach, and Huang 1994). The adoption of crop technologies is scale-neutral in the sense that farmers can test the new crop on a small portion of land, thus reducing risk problems and allowing farmers to learn through use (Feder 1982; Feder, Just, and Zilberman 1985). This strategy might be less relevant for biofuels if their introduction depends upon a large investment in local processing facilities. In this case, extra attention should be paid to spatially dispersed adaptive and evaluative research (Judd, Boyce, and Evenson 1986) and appropriate extension services, public or private.

Agricultural extension systems are designed to provide farmers information about new technologies and thus facilitate technology transfer or adoption. Researchers have estimated high rates of return to extension work in the United States and have demonstrated that, provided there are attractive technologies awaiting adoption, contact between farmers and extension agents promotes technology adoption in some less-developed countries (Huffman and Evenson 2006; Abdulai and Huffman 2005; Polson and Spencer 1991).

In industries requiring high up-front investments in infrastructure or regulatory compliance, adoption may be retarded by lock-in of old technologies. In agricultural biotechnology, regulatory requirements for testing a new variety, and fragmented IP claims on inputs for a single new technology, create high costs of entry for followers once a leading innovation has become approved established. Private firms owning IP might raise their prices for access to proprietary technology after strategically pricing low to induce diffusion and dependence.<sup>13</sup> This issue is akin to a problem of patented technology incorporated in regulatory standards, familiar from the literature in electronics and communications technology, although the connections between the relative literatures have not, as far as we are aware, been fully explored.

Note, however, that if farmers perceive a technology to be extremely attractive or to provide significant benefits, they will not only adopt at impressive rates but may also perform adaptive innovation themselves, regardless of the policy regime in place. A case in point is the exchange and development of unapproved genetically modified seeds by Gujarati farmers and the success of these farmers' opposition to federal attempts to destroy the unapproved standing crop (Pray et al. 2005). The case of "no-tillage" agriculture in the United States, one of the prominent agricultural innovations in the late twentieth century, is also a striking example of users innovating and adopting in response to prices and practical environmental problems. The first no-till planting is credited to Kentucky grain grower Harry Young, an extension specialist who successfully applied his knowledge of scientific trials for new herbicides to develop this new method of crop growing in 1962 (Coughenour and Chamala 2001). Due to such benefits as increased yield and reduced requirements for labor, water, fuel, and machinery, the word about no-tillage spread rapidly between farmers, who traveled from neighboring states to learn about Young's technique. The ensuing years saw

13. For example, in the years before United States patents were generally published eighteen months after application, Monsanto encouraged widespread use of their 35S promoter in plant transformation. The fact that Monsanto had a patent on the technology was revealed only after 35S had been diffused widely, when the patent was granted and published. Innovators could commercialize their technologies incorporating the promoter only if they had a license from Monsanto because switching promoters would have required producing new transgenic technologies using a noninfringing promoter, followed by transformation of relevant cultivars, testing, and dissemination (Joly and de Looze 1996), an alternative so time-consuming as to preclude serious consideration.

rapid diffusion of the technique between farmers, who adapted the technology for other crops such as soybeans.<sup>14</sup> In view of the many complex legal and institutional innovation systems developed by governments, these examples are important reminders of the time-honored role of practitioners participating in technological development, with motivations ranging from necessity to curiosity.

## 2.8 Conclusion

In both the energy and the agricultural sectors, the demand for the services and goods produced extends across all the populated areas of the world, where heterogeneity in consumer preferences, environmental conditions, economic structures, and governmental policies mediate the applicability and appropriateness of innovations. For agriculture, the need for local adaptive technology has created global dispersion of research efforts and support. However, investments are by no means evenly dispersed across the globe. Instead, the majority of global spending comes from large countries that can internalize the benefits of research. The high rates of return to agricultural research in the United States were achieved through sustained public investment oriented by a clear mission. The establishment of institutional mechanisms in the nineteenth century created a public commitment to agriculture, but the extent and direction of public investments has been and will continue to be influenced by interest groups operating at multiple geographic scales.

The experience in agriculture should be of interest to those assessing the appropriate roles of public and private research. In agriculture, (a) IPRs have not strongly encouraged the private production of basic, essential research that is risky and often only pays off in the long run, (b) IPRs on key research inputs can impede freedom to operate in public research, and (c) IPRs on research inputs have led to market concentration and price markups, which should discourage or delay adoption. However, it appears that leading firms in the private sector have been particularly efficient in developing, promoting, and disseminating commercial technology packages, relative to what one might reasonably expect of a typically competent public or nonprofit entity, especially in the context of a disruptive and controversial technology.

For governments, experience in agriculture illustrates the importance of effective consumer protection, administration of standards and grades, and antitrust. With respect to innovations, governments face the challenge of balancing public trust and safety with exploiting the advantages produced by a changing technological environment. Critiques of the shortcomings of regulatory performance in the United States and elsewhere draw attention to

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14. By 1970, 35 percent of farmers in southwest Kentucky had tried no-tillage for corn (Coughenour and Chamala 2001).

the need for further scientific study directed to the achievement of effective and dynamically adaptive regulation.

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