

**Innovation and sustainability from
a non-producer's perspective:**
(The Role of Producer Organisations in
Creating Industry Goods)

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The Problem

Markets often fail to optimally provide goods that global citizens want eg. environmental stewardship

- How do we (as a society) fix it?
- How do we create an innovation system that will address climate change and habitat preservation?

Textbook Market Failures

- Lack of knowledge
 - Buyers won't pay for extra something they don't know about
- Lack of Excludability
 - Buyers won't pay for something they can get for free
- Lack of public good provision (eg. R,D&E)
 - Private firms won't invest where there is no return

Textbook Solutions:

Governments should intervene where markets fail:

- Government policy to create standards and public grading (information)
- Government will pass laws to create and enforce property rights
- Government will pass laws to protect the environment
- Governments will provide public goods to address the market failures
 - Fund public research where IP is lacking
 - Fund public extension

Is this the role of government?

- Is this the way to think about creating “sustainable agriculture”?
- What is the role of industry organisations?

What is the role of industry?

- Create industry standards and certification
- Fund research where IP is lacking
- Fund extension

Industry Goods Definition

- Industry goods are public goods where the spillovers are concentrated within *the industry*
- Example: In the poultry industry finding a vaccine for avian flue would benefit the whole poultry supply chain.

Incentive Alignment

- Producers and other parts of the supply chain directly benefit from addressing market failures in their industry
- The general public has only an indirect interest

Industry Voice

- Parts of the industry are closer to the problem and often have a better idea how to solve the problem
- For example, Farmer knowledge played a huge role in the development of zero tillage

Trust

- sources of knowledge matter for addressing uncertainty
- a farmer will trust advice coming from other farmers
- consumers generally trust farmers

Social Capital

- Innovation often requires new relationships
- Industry organisations are a source of social capital
- Social capital can quickly reorganize resources around a new issue

Environmental protection is becoming an “Industry Good”

- Consumers increasingly expect their food to be produced sustainably – eg. low GHG
- When this becomes part of their food choices “sustainability” becomes an industry good eg. reducing habitat loss becomes an industry good for the canola industry
- Industry organisations can play a very important role in innovation by creating industry goods

Conclusions

- Climate change and sustainable food production are increasingly important issues for the public and consumers
- Governments policy alone will not solve these issues
- Industry organisations have been very effective in fostering past innovation eg. pulses, zero till
- Are Industry organisations sufficiently engaged to solve these 21st century problems?
- Chad, what role if any have industry organisations played in addressing land use problems?