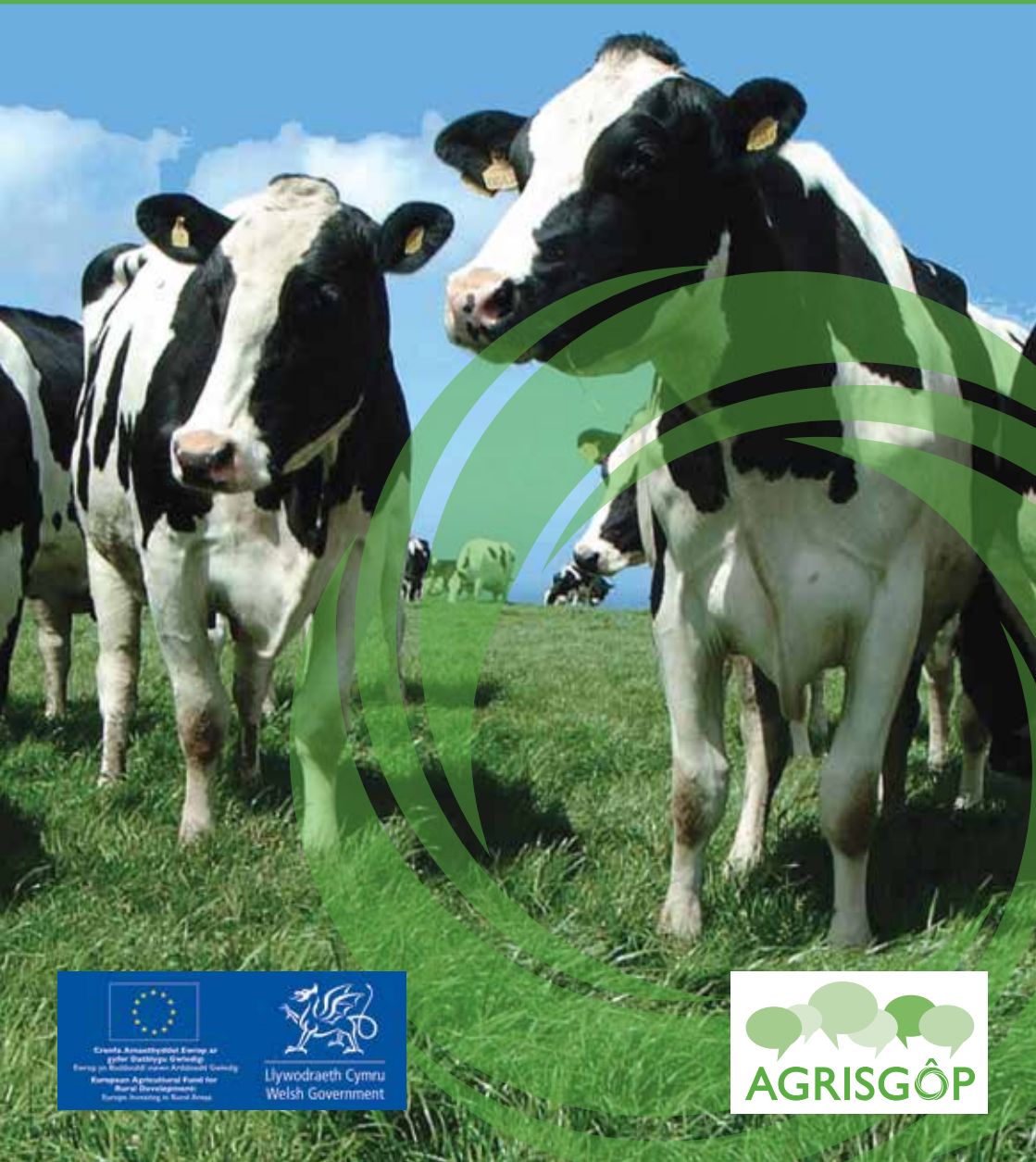




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# Establishing a Dairy Producer Organisation in Wales



Cwmni Amaethyddol Ffermyr ar  
Cyflwr Swyddfa Gwladol  
Ewrop yn Wladwriaeth Cymru a Lloegr  
European Agricultural Fund for  
Rural Development  
European Investment in Rural Areas



Llywodraeth Cymru  
Welsh Government



**AGRISGÔP**

# Establishing a Dairy Producer Organisation in Wales

Milk prices have become more volatile since the ending of EU milk quotas in 2015. The European Commission is encouraging the establishment of Dairy Producer Organisations (DPO) to increase bargaining power and improve efficiencies in the supply chain. This factsheet aims to outline the structures of a DPO, offering a better understanding of how a DPO could work for the whole dairy supply chain, and the potential benefits and pitfalls of forming a DPO.



## What is a DPO?

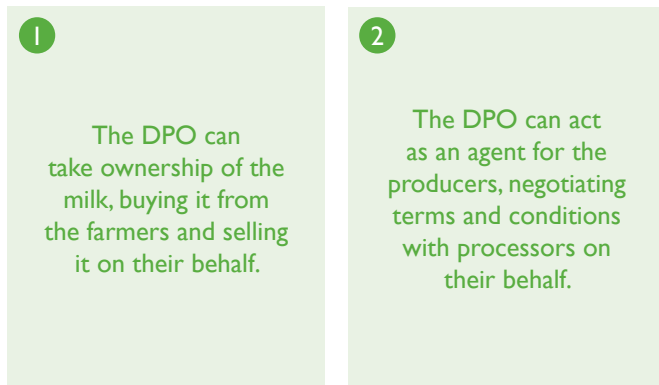
- A Dairy Producer Organisation (DPO) is a legally recognised body set up and controlled by a group of farmers for specific purposes, such as negotiating contracts and terms and conditions of supply with processors. Applications to form a DPO should be made to the Rural Payments Agency.
- DPOs were established under the 2012 EU Milk Package to increase bargaining power in the supply chain.
- To be formally recognised as a DPO, the group should have at least 10 members, trading as separate legal entities. It is possible to form a DPO with fewer members (at least two) providing they supply more than 6 million litres between them.
- Any milk producer can join a DPO, but they can only join one group.
- Farmers who are already members of a dairy co-operative are not allowed to join a DPO as well.
- DPOs are exempt from some aspects of competition law, particularly on collective negotiation.
- Under rules on market share, DPOs are allowed to grow to represent up to 33% (4.55 billion litres) of national milk production or no more than 3.5% (4.8 billion litres) of EU production.
- A DPO can negotiate different prices for different members, the duration of the contracts can vary and they do not have to take ownership of the milk.
- There is no obligation on processors to officially recognise and negotiate with DPOs, even if they are formed.

# Structure

The structure of a DPO is very flexible. There are three main routes that producers are most likely to follow when establishing a DPO:



As well as the options for the functions of a DPO, there are two main business models it can adopt:



# Opportunities for producers and processors

- One of the main opportunities offered by DPOs is the potential to strengthen their members' position in the dairy supply chain through increased bargaining power and the development of more functional relationships with processors.
- A DPO can negotiate supply terms and conditions on behalf of its members to increase the price they receive for their milk and ensure the price is more stable.
- Negotiations could focus on:
 

→ constituent values	→ volume bonuses	→ seasonality
→ level profile	→ indexation	→ two tier pricing
→ forward selling	→ assurance	→ transport charges
→ hygiene payments	→ production system – organic/grazing	
- As DPOs are exempt from some aspects of competition law, they can negotiate sales of larger volumes of milk than normally allowed.
- Production can be planned and adjusted to meet specific requirements on quality and quantity at certain times of the year.
- Knowledge and best practice can be shared, enabling farmers to optimise their production costs and operating margins. Benchmarking can also help improve farm management.
- Milk buyers will have one point of contact, whom they can build a relationship with, resulting in a better working relationship with their suppliers.
- Working with a DPO can improve efficiencies in the supply chain for processors, such as reducing haulage costs through a more strategic approach.

## Possible pitfalls

### ESSENTIAL INGREDIENTS FOR SUCCESS

- A DPO formed on the basis of creating benefits for both parties will have a better chance of being well received by the processor.
- Producers and processors have to work in partnership, rather than on opposing sides, to achieve mutual benefits.
- Working towards shared goals such as planning and adjusting quality and quantity of milk production to meet demand.

**CONFIDENCE** – Collaborative working in the dairy sector is viewed with suspicion and a lack of confidence that a DPO can actually achieve anything has been identified as the biggest barrier to their establishment.

**COST** – Establishing and running a DPO is not cost free and even though it might cost just 0.6% of the milk price, producers may be unwilling to pay this.

**SKILLS** – Knowledge and skills are needed to run a DPO effectively and carry out its functions. Strong leaders will be needed to head up new DPOs to motivate and nurture their development.

**INFLUENCE** – If a DPO represents a low share of a buyer's supply it will not have much influence.

**AWARENESS** – As DPOs are a new initiative in the dairy sector, there is a lack of awareness from both producers and processors about how they work and what they can achieve.

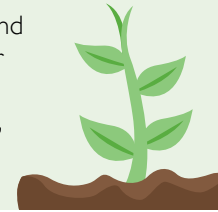
**RECOGNITION** – not all processors will want to recognise and work with DPOs.

**COHESION** – It will be hard to get producers to work together if they do not have much in common, such as geography, scale, and production systems.



## DPOs in Europe and the UK

DPOs are common throughout Europe and have been around for many years in other sectors of agriculture, such as horticulture.



**140** individual DPOs in Germany, dominating milk supply to non-co-operative processors.



Also 2 umbrella associations of DPO. The largest has **18,000** members.



In 2013, German DPOs were estimated to cover around **1.2 billion** litres or 33% of milk deliveries.

Around **13** new DPOs have been formed in Germany since the EU Milk Package came into effect.



Dairy Crest Direct was the UK's first recognised DPO in 2015, with **1,050** founding farmer members. It continues to represent farmers from Devon and Cornwall who supply Dairy Crest Davidstow with **0.5 billion litres** a year, whilst Direct Milk DPO was established in early 2016 to continue representing ex Dairy Crest farmers who now supply Müller with **1 billion litres** a year.



The Milk Supply Association has applied to register as Scotland's first DPO. It has **141 farmers** who supply Lactalis.



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This fact sheet is the result of the work of the DPO Cymru Agrisgôp group. This is a group of farmers from Wales who are keen to collaborate in order to promote and encourage further use of the Dairy Producers Group (DPO) structure in Wales. Their aim through Agrisgôp was to work as a group in order to raise awareness and improve understanding within the dairy industry of the possibilities made available through DPO models.

The programme brings together progressive and like-minded individuals from farming, forestry and food businesses on a local level to learn new management skills, receive expert advice and explore and develop a viable future. Based on the concept of Action Learning, Agrisgôp offers an opportunity to develop skills and confidence, which will in turn help members identify ideas and opportunities for their own businesses.

Since 2008 Agrisgôp has been part of the Farming Connect programme which is funded through the Welsh Government Rural Communities - Rural Development Programme 2014-2020, which is funded by the European Agricultural Fund for Rural Development and the Welsh Government.

*This factsheet summarises findings from a report commissioned by the group under the "Improving the Welsh Dairy Supply Chain" project, which was part of the Supply Chain Efficiencies Scheme (SCES) of the Rural Development Plan (RDP) for Wales 2007 – 2013. For a copy of the full report please get in touch.*

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