

A GUIDE TO PRODUCER ORGANISATIONS IN THE DAIRY SECTOR



INTRODUCTION

In December 2011 the European Parliament and the European Council agreed a new EU Dairy Package. Central to the package was the opportunity for dairy producers to better organise themselves into Producer Organisations to strengthen their position in the dairy supply chain.

More recently, uncertainty over milk prices within the UK has stimulated widespread interest in Producer Organisations and the role that they could potentially play for dairy farmers. However, they are not silver bullets that are going to change the fortunes of dairy farmers overnight; but they could offer a way to encourage greater supply chain collaboration, putting farmers on a stronger footing within the supply chain not just to rebalance bargaining power but also to develop better more mutually beneficial relationships between all parties across the supply chain.

This guide has been put together by the NFU and EFFF to help dairy farmers explore the role that Producer Organisations might play in the dairy sector, using in part the experiences of Producer Organisations currently operating in other sectors such as fresh produce. It is not meant to be an all encompassing guide to the development of such organisations but rather a document that will help dairy farmers review their options for selling milk, to assess whether the formation of a Producer Organisation is a realistic option and to outline what it would actually involve.

It is important to note that at the time of writing Defra and the RPA are still developing the national framework for the registration and recognition of Producer Organisations. They will shortly be going out to consultation with the industry and it is expected that they will be in a position to consider requests for the recognition of Producer Organisations by the spring of 2013.

The guide has been broken down into a number of key areas which are designed to build on each other:

- Where have dairy Producer Organisations come from?
- What is a producer organisation?
- The benefits of collaborating
- Under what circumstances might a Producer Organisation be formed?
- Forming a Producer Organisation
- Why do it?
- On what basis will it operate?
- Where to start?
- Summary and what next?

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WHERE HAVE DAIRY PRODUCER ORGANISATIONS COME FROM?

Producer Organisations are not a new concept. The European Union has provided for the possibility for Member States to recognise Producer Organisations across all agricultural sectors, (with specific rules for certain sectors in particular the Fruit & Vegetables sector) for some years; and to some extent we already have dairy groups in the UK that perform the types of roles being envisaged by the EU for Producer Organisations. So why are they being introduced in the dairy sector?

In 2008 the milk sector went through a deep crisis due to a shift in demand away from dairy products following exceptionally high demand and prices in 2007. This crisis showed some shortcomings in the market orientation of the milk sector which led to the EU Commissioner for Agriculture and Rural Development to create a High Level Experts' Group on Milk (HLG) to work on a regulatory framework to be put in place for the medium to long term, which would contribute to stabilising the market and producers' income and enhance supply chain transparency.

One key aspect of the HLG's work focused on areas which relate to the structure of the market and the players within it. It pointed out that the existence for a long period of time of fixed quotas and high institutional prices has created a lack of agility in the market. Structural changes have often been inhibited and players across the supply chain have not been stimulated to respond to market signals, including price signals.

It was recognised that concentration of supply from farmers is much lower than concentration at the processing level which results in an imbalance in bargaining power between these levels. The HLG concluded that the distribution of added value in the chain is not balanced, especially with regard to farmers and there is a significant problem around price transmission along the chain. To rebalance this bargaining power, the HLG proposed a number of measures:

- To allow member states to decide whether to require written contracts offers for the delivery of raw milk by farmers to a dairy which would include key aspects of price, the timing and volume of deliveries and the duration of the contract.
- To allow farmers to form Producer Organisations which may negotiate contracts for the delivery of raw milk on behalf of their members collectively, including the price.
- To introduce rules to encourage the formation of Inter-branch Organisations which include part or all of the supply chain: farmers, processors, distributors and retailers.

This guide focuses on the establishment of Producer Organisations. In essence, it was found that although some collective negotiation is permitted under current competition rules, there is still a lack of legal certainty; so the proposal provides for a legal basis in agricultural law to permit producer organisations to negotiate contracts including price. In order to ensure competition is not excluded, a size limit for such negotiations has been set. It should be noted that the proposals do not affect dairy cooperatives where the raw milk is covered by an obligation to deliver arising from the farmer's membership of a cooperative in accordance with the conditions set out in the cooperative's statute. The proposals put forward were subsequently adopted in the Dairy Regulation in 2011¹ and have been incorporated into the Single Common Market Organisation Regulation². The Commission has recently adopted the detailed implementing rules³.



¹ Regulation (EU) No 261/2012
² Regulation (EC) No 1234/2007
³ Commission Implementing Regulation (EU) No 511/2012 and Delegated Regulation (EU) No 880/2012

In the UK we have seen a large amount of interest and activity over recent months in the dairy sector. In particular, we have seen the agreement of the industry's voluntary code of best practice on contractual relationships between milk buyers and farmers; and over recent months we have seen the formation of a dairy coalition and the SOS dairy campaign, bringing together an alliance of industry bodies that have successfully pressured the industry to rescind on milk price cuts.

Recent uncertainty over prices has stimulated a widespread interest in Producer Organisations and the role they could potentially play for dairy farmers. The rest of this note has been designed to help dairy farmers review their options for selling milk and to assess whether the formation of a Producer Organisation is a realistic option and what it would actually involve.

SO WHAT IS A PRODUCER ORGANISATION?

In its simplest form a Producer Organisation is an organisation formed by a group of farmers that carries a particular status under European law. As long as a Producer Organisation complies with conditions set-out in accordance with the European regulations and is recognised by the competent authority, it can take advantage of exemptions with respect to competition law which will allow the Producer Organisation to negotiate contracts, including price, for the delivery of raw milk on behalf of its farmer members.

This potentially offers a considerable step forward for many farmers allowing them to negotiate from a position of market significance with a substantial volume of milk. This should enable more price transparency and open up opportunities for greater collaborative working with customers to unlock value for the benefit of all those involved.

At this stage, a definitive interpretation of what the regulations mean for the recognition of dairy Producer Organisations is not available. However, we do know that in order for a producer Organisation to be recognised it must meet the following conditions:

- the Producer Organisation is formed at the initiative of the producers;
- the Producer Organisation pursues a specific aim – the Regulation does not prescribe what this aim must be but gives the following 3 examples in a non-exhaustive list:
 - ensuring that production is planned and adjusted to demand, particularly in terms of quality and quantity;
 - concentration of supply and the placing on the market of the products produced by its members;
 - optimising production costs and stabilising producer prices;

- the Producer Organisation has a minimum number of Members and/or covers a minimum volume of marketable production which the member state will set (in the UK this will be set following consultation with industry this autumn).
- the producers can provide sufficient evidence that they can carry out their activities properly, both over time and in terms of effectiveness and concentration of supply; and
- the Producer Organisation has a statute which is consistent with these conditions. Such statutes would set out the functions of the producer organisation and could provide for financial contributions from Members to fund the operation of the organisation and its functions.

In addition, and based on experience of existing Producer Organisations in the fruit and vegetable sector, it is expected that to qualify for Producer Organisation status the Producer Organisation must be a legal entity providing limited liability and an ability to contract, have a constitution that provides for democratic accountability, include obligations for members to provide finance, have procedures for determining, adopting and amending the constitution, include penalties for members infringing rules and obligations, and have a procedure for admission and resignation of members and proper accounting and budgeting.

Producer Organisations will be able to negotiate contracts:

- whether or not ownership of the milk is transferred to the Producer Organisation
- whether or not the price negotiated is the same as regards the joint production of some or all of the farmer members
- provided that the farmer members belong to only one Producer Organisation that negotiates their contracts.
- provided that the milk is not covered by an obligation to deliver arising from the farmer's membership of a cooperative.

In particular, under the regulations a Producer Organisation may only negotiate contracts if the volume of raw milk covered by such negotiations is not larger than 33 percent of the total production of the member state(s) in which the milk is produced and delivered or 3.5 percent of the EU's production, whichever is the greater. There are provisions to allow Producer Organisations to jointly undertake activity as an association of Producer Organisations but the limits on scale of negotiations would still remain. It should be pointed out that whilst the regulations provide clarity over the scale of negotiations which Producer Organisations may cover, even where the thresholds are not exceeded, the competition authority may decide that a negotiation should be reopened or not take place at all if it considers that this is necessary in order to prevent competition being excluded or in order to avoid seriously damaging SME processors of raw milk in its territory.

Once recognised a Producer Organisation is able to undertake different activities on behalf of its farmer members, including the ability to collectively negotiate contracts with one or more dairy companies (as anticipated in the EU Dairy Package) and other business activities such as purchasing inputs, coordinating production and joint marketing activity.

Importantly a recognised Producer Organisation should provide a legal structure for a group of farmers to operate. Not only would this mean that milk purchasers treat them as legal entities with which they can negotiate and potentially contract, but the structure also provides confidence to members by setting out clearly what the Producer Organisation will do, the level of commitment required from members and governance and decision making procedures.

An example of a Producer Organisation in the fresh produce sector:

Fresh Growers Ltd. is a Producer Organisation in the fresh produce sector that was formed in June 1998 by 10 farmers. They represent a farming base of over 20,000 acres growing both conventional and organic vegetables. By working together they have been able to deliver a programme of innovation and access markets that they would not have been able to achieve as individuals. They are probably best known for bringing back Chantenay carrots to the UK and are now the world's leading supplier, supplying over 90% of the UK Chantenay market.



THE BENEFITS OF COLLABORATING

A Producer Organisation brings together people and businesses into a collaborative venture. For many, working with other dairy farmers will be a new and often alien way of working. It involves aligned thinking, commitment to work with others and a joint approach to business. *If a farmer is not prepared to collaborate and operate in this way, a Producer Organisation is not for them.* It is important therefore for individuals to be clear about what collaboration entails and its potential benefits before making a decision whether to pursue this route.

Benefits

Collaboration is often touted as a potential solution for the lack of profitability in many farm businesses. Generally farming businesses are small with a fragmented geographical spread particularly when compared to their food company customers which tend to be larger, strategically positioned operations. Collaboration, it can be argued, brings farmers together to help consolidate supply and collectively negotiate thereby helping to balance this difference in order to achieve what otherwise would be more difficult to do individually.

But it is not just about negotiating a better price, which ultimately is limited by what the market can pay. There are other benefits to consider such as:

- Negotiating better contractual terms and conditions.
- Optimising production costs and operating margins through:
 - Knowledge exchange
 - sharing of best (dairy farming) practice
 - Benchmarking and improved individual farm management
- The ability to coordinate production activities, e.g. adapting production to demand (including type, quality and quantity of milk).
- Improved sharing of market information both between farmers and with customers.
- Joint purchasing of farm inputs.
- Group product marketing and branding.
- Better customer service levels.
- Exploring new market opportunities.
- Faster responsiveness to changes in the market.

The purpose and operations of any collaborative venture need to be agreed and clearly understood by the members from the outset. It is likely, especially for a newly formed Producer Organisation, that some of these benefits will only materialise over time and that in the first instance, a more focussed and specific role will be agreed.

Commitment

Whilst there are a range of different activities which the Producer Organisation can undertake on behalf of its members, there are also commitments that members have to make to the Producer Organisation. This membership commitment is critical to the success or otherwise of the Producer Organisation and as such is often set out in a legally binding *Members' Agreement*.

This reinforces the need for any farmer considering establishing or joining a Producer Organisation to be clear that it will involve some form of commitment. It is not something that can be taken lightly; if a farmer is averse to the idea of collaborating with other farmers, forming a Producer Organisation is not for them.

New collaborative ventures are not always the answer

Producer Organisations have the potential to offer dairy farmers a new way in which to engage in the supply chain to rebalance bargaining power and to develop better more mutually beneficial relationships between all parties across the supply chain. However, there is a risk that the establishment of Producer Organisations could lead to greater fragmentation of the market place, more than is the case today, with Producer Organisations competing with each other on price which could force prices down.



UNDER WHAT CIRCUMSTANCES MIGHT A PRODUCER ORGANISATION BE FORMED?

There could be a number of situations and circumstances in which dairy farmers may wish to form a Producer Organisation and a number of scenarios have been listed below. It should be noted however, that the EU Regulations make it quite clear that when a farmer's membership of a dairy cooperative entails an obligation to deliver raw milk, then the conditions attached to that obligation preclude any negotiation through a Producer Organisation – in other words farmers who are members of cooperatives cannot also be members of a Producer Organisation that sells their milk.

This is by no means an exhaustive list but scenarios may include the following:

1. A small group of farmers supplying a regional dairy processor who wish to improve the relationship with their customer or share knowledge and coordinate production amongst themselves by taking a more collaborative approach. The formation of a Producer Organisation would provide the cohesion required to bring the farmers together and make available a platform whereby the farmers can collectively voice their opinions and concerns and ultimately negotiate a better position for all parties concerned.
2. A larger group of farmers selling into a national dairy processor where there is no existing dairy group in place, but a willingness for farmers to take greater control of their relationship with the processor by collectively discussing price and contract terms.
3. A group of regional farmers who may currently be supplying a number of customers but could strengthen their position by forming a Producer Organisation to better coordinate and market their milk from the region.
4. An existing representative group that wishes to restructure the way that it operates to become a recognised Producer Organisation to improve its bargaining power and thus terms and conditions with the processor.
5. Farmers who are part of a retail aligned group may wish to form a Producer Organisation to collectively negotiate and build a relationship with the retailer directly rather than through their processor.
6. Non-aligned farmers supplying a processor who do not have a specific market contract who wish to improve their position by forming a Producer Organisation with other farmers.
7. Any group of farmers who believe that there is an advantage to be had by working more closely together, be that creating a better negotiating position, building more sustainable supply chain relationships or seeking ways in which to better manage risk or input costs.

Whatever the situation or circumstance a dairy farmer or group of dairy farmers find themselves in, the way they approach the formation of a Producer Organisation and the areas that they need to consider are broadly the same (see the following pages). Clearly, those farmers or groups that already have a close working relationship with their customer need to be cognisant of any damage to the relationship that may result from the pursuit of this route.

Forming Producer Organisations under one or more of these scenarios may carry significant risks which must be considered very carefully with existing and prospective customers before farmers make changes. The next section deals with this.

FORMING A PRODUCER ORGANISATION – WHY DO IT?

There is a great deal to think about when considering the formation of any new business including those also wishing to be recognised as a Producer Organisation both in terms of the practical actions that need to be taken but more importantly in terms of some of the strategic questions that need to be answered.

The answers to these questions will depend on the unique set of circumstance that each farmer or group of dairy farmers find themselves in, but the questions remain true irrespective of the circumstances. At the start of the process, before any of the detail is considered, it is worth asking a series of basic questions which will lead you to answer a very fundamental question... why form a Producer Organisation?

The basic questions

1. **What advantage is forming a Producer Organisation going to give you?**
 - Will it allow you to create a better negotiating position?
 - Will you be able to add value to the milk you produce?
 - Will you be able to build a more sustainable relationship with the rest of your supply chain?
 - Will you be able to collaborate with other milk producers to better purchase inputs and share best practice and otherwise optimise production costs and operating margins?

2. **What will the Producer Organisation actually do?**
 - Will it collectively negotiate price with the processor?
 - Will it have powers over the milk contact with the processor on behalf of farmers?
 - Will it take ownership of the milk, selling to whoever offers the best long-term price?
 - Will it invest into processing assets of its own?
3. **What are you trying to achieve this year, next year and in five years time?**
 - What are your longer term aspirations – what could the Producer Organisation achieve in five to ten years time?
 - What is realistic in the next two years and what could you achieve this year?
4. **Will other dairy farmers be interested?**
 - Will you be able to recruit the dairy farmers needed to make the initiative work?
 - Will you be able to persuade them that it is the right thing to do?
5. **How will your existing customer react to the formation of a Producer Organisation?**
 - Will your existing customer be supportive of the formation of a Producer Organisation or are they likely to resist such a move?
 - If they resist what are the risks to those farmers involved?
 - In the case of retail aligned farmers, how will your retailer react – will they be supportive?
6. **Are there any alternatives to the formation of a Producer Organisation?**
 - Could you join an existing representative group?
 - Are there other Producer Organisations being formed that you could join?
 - Would you be better off joining an existing cooperative?

Having answered these questions you should be in a position to say why you want to form a Producer Organisation, what it is that you are looking to achieve and whether it is the right thing to do. If the conclusion is positive, then you will need to start developing a more detailed business case.

FORMING A PRODUCER ORGANISATION – ON WHAT BASIS WILL IT OPERATE?

Having decided that forming a Producer Organisation is the right course of action, the next step is to decide on what basis it will operate – this will depend of course on what it is that the Producer Organisation is actually going to do.

In simple terms there are essentially three ways in which a Producer Organisation can operate:

1. It can act as an agency working on behalf of its members in price negotiations but not taking ownership of the milk so that producers still hold the contract directly with the processor.
2. It can act as an agency contracting with the processor for delivery of milk on behalf of its members, so that producers are contracted to the Producer Organisation not the processor.
3. It can act as principal, taking ownership of the milk and selling directly to the processor(s), so that producers are contracted to the Producer Organisation not the processor.

The following sets out what this means in practice, the pros and cons and what the implications are for each option.

1. Agency acting on behalf of its members in price negotiations

What does this mean in practice?

The producer organisation is formed to collectively negotiate terms (price and contract terms) with the processor, or in some cases retailer, on behalf of its members, but the actual milk contract remains between the individual farmer and the processor.

Pros	Cons
It is relatively simple to establish and is unlikely to upset the existing processor. There are a number of examples of representative groups already fulfilling this kind of role, such as Dairy Crest Direct and the Arla Foods Milk Partnerships.	The Producer Organisation's negotiating strength is potentially compromised as it doesn't hold any direct contractual power over the processor due to the fact that the milk contract remains between the individual farmer and the processor.

Implications:

Whilst relatively easy to establish, the Producer Organisation will need to be legally established and its governing documents will need to meet the requirements of the regulatory framework. To become a bone fide Producer Organisation it will need to be recognised by the Regional Payments Agency (RPA).

Consideration will need to be given to how the business will be governed and whether an executive function is required to run the group on a day to day basis and negotiate terms with customers. Fundamental to the governance of the business will be the mechanisms by which members' interests are communicated to the board and vice versa.

The Producer Organisation will need to consider how it will finance its activities and how it ensures the commitment from its members. This is likely to involve the members paying a levy and signing up to a Member's Agreement that sets out the roles, responsibilities and commitment of both parties.

It is worth noting that whilst collective bargaining power is often dependant on the ability of the supplier to sell to more than one customer, the fact that a Producer Organisation in this instance is likely to be locked into one customer doesn't mean that this option cannot deliver value to the farmer if the right working relationship can be established.

2. Agency contracting with processors on behalf of its members

What does this mean in practice?

The Producer Organisation contracts directly with one or more processor on behalf of its members but doesn't take ownership of the milk. Members will have a legally binding agreement with the Producer Organisation that commits them to supply their milk to whomever the Producer Organisation contracts with.

Pros	Cons
The Producer Organisation will have greater negotiating strength as it directly contracts with the processor on behalf of its members. It could also have the ability to sell milk to more than one processor and to move contracts as it deems necessary.	The Producer Organisation's negotiating strength is potentially compromised as it doesn't hold any direct contractual power over the processor due to the fact that the milk contract remains between the individual farmer and the processor.

Implications:

The implications for this option are the same as those set out in option 1 above; but in addition the Producer Organisation will need to develop direct contracts with the processor(s) and also put in place a legally binding agreement with members (a members agreement) that commits them to the supply of milk to whoever the Producer Organisation sells the milk to on their behalf.

It is worth noting that under this option it is envisaged that the processor will remain responsible for milk logistics, quality and administration; but there is a chance that processors may look to pass this responsibility to the Producer Organisation.

Liaison with existing (or potential) customers will be important when developing the business case for this option, as a lack of support could leave the Producer Organisation vulnerable (without a home for the milk) or difficult to establish given that the processor currently holds the contracts with individual farmers.

3. Acting as principal taking ownership of the milk

What does this mean in practice?

The Producer Organisation takes ownership of the milk buying it from members and selling it onto one or more processors; effectively becoming a milk broker on behalf of its members. This option will require that the Producer Organisation is responsible for milk logistics, quality, administration (including liaison with the RPA) and milk balancing.

Pros	Cons
It may maximise the ability of the Producer Organisation to best market milk on behalf of its members. In the right circumstance this may offer producers an opportunity to develop a direct relationship with retail customers.	This option is the most complex and risky to set up and will require management expertise to operate the business on a day to day basis. The Producer Organisation will be solely responsible for selling its members' milk leaving it vulnerable to market dynamics. Historically, most farmer owned brokering business have either ceased trading or invested into their own processing assets.

Implications:

There is a lot to think about when considering this option. As well as legally constituting the Producer Organisation itself and attaining recognition from the RPA, the business will also have to register with the RPA as a 'first purchaser' of milk and until 31 March 2015 comply with Milk Quota requirements.

As a first purchaser of milk the Producer Organisation will need to consider areas such as:

Day to day management: this option is likely to require a full time management team to run the business on a day to day basis. Such management will need to have the knowledge and skills necessary to sell milk, manage logistics, deal with quality implications, liaise with members and manage administration.

Member agreements: the Producer Organisation will need to have legally binding agreements with its members that set out the obligations of the member to supply milk to the organisation and other matters that are required to govern the relationship between both parties.

Milk pricing: Pricing mechanisms and schedules will need to be developed, taking into account volumes, quality, seasonality and penalties, etc.

Milk quality: procedures for managing milk quality will need to be put in place; including: antibiotic testing, contamination and temperature protocols, reject load protocols, etc.

Sale contracts: the Producer Organisation will need to put in place sales contracts with processors or retailers (these will vary depending on what is agreed).

Logistics: the Producer Organisation may be responsible for the collection and delivery of milk from farm to its customers. This could mean that the Producer Organisation takes ownership of lorries and tankers or it could contract haulage out to a third party logistics provider. It may be possible to persuade the customer to collect the milk as part of the terms of the sales contract?

Milk balancing: Consideration will need to be given to the markets that the Producer Organisation sells into to manage the seasonal profile of its members' milk production. Commodity markets in the spring flush are not always the most lucrative from a price point of view. If supplying the liquid milk sector it may be necessary to balance milk on a weekly basis as the weekly profile can vary +/- 20% due to shopping patterns.

Financing: the Producer Organisation will need to decide how it will fund its set up costs and ongoing running costs (working capital). Moreover, if assets are required (such as lorries or processing capacity) then raising capital will need to be considered. In most cases working capital is managed by taking a margin between the sale price and the price paid to farmers and by the fact that farmers are only paid once the processor has paid the Producer Organisation.

Administration and accounts: as a first purchaser of milk the Producer Organisation will be responsible for managing quota on behalf of the RPA as well as the general day to day organisation and paper trail required by customers, members, regulatory bodies and other stakeholders.

To summarise

Acting as principal, taking ownership of the milk, is by far the most complex and risky option for a Producer Organisation to implement. However, there may be opportunities to contract out much of the functions required. This is not to say that the Producer Organisation doesn't remain responsible for such activities, but areas such as logistics, management and administration and even milk processing could be contracted out to third parties or existing operators in the sector.

It is worth noting that Producer Organisations, on whatever basis they are formed, are free to choose their own aims and activities which may include restricting involvement and negotiations to a specific customer. Such restrictions may help overcome the concerns of some processors/ customers that the formation of Producer Organisations will lead to the risk of milk being diverted to other customers and ultimately damaging the existing relationships that exist.



FORMING A PRODUCER ORGANISATION – WHERE TO START

Establishing a Producer Organisation will require time, effort and probably expense but if done well, can deliver benefits to those involved. Moreover, the time and effort is likely to fall to a small group of individuals who have the drive, motivation and skills to make it happen.

Depending on what the Producer Organisation is setting out to achieve, it is not necessarily going to be a simple procedure and can take longer than expected, particularly if there are a large number of producers involved. The following outlines a simple process to follow. It should be noted that there is no 'one size fits all' but the steps below provide a rough guide to follow.

At the time of writing this guide, Defra and the RPA have yet to provide any national guidance on what they require from a Producer Organisation to gain recognition. This will be produced shortly following liaison with industry.

Set up a small, focussed working group

If there appears to be interest from fellow farmers, the first step is to enlist the help of a few and form a working party. This not only allows for the different tasks to be shared between the group, it also helps to make sure the necessary tasks are undertaken. It is true that in many instances, the success of a collaborative venture can be traced back to the efforts of a small group of individuals who are willing to give up their time and put in the necessary effort to make it work. It is recommended that the working group takes a professional approach to its meetings, keeping minutes of discussions, agreeing actions and setting timeframes for completion.

Take advice and use the expertise of others

There are a number of organisations and individuals who can help you set up a Producer Organisation including the NFU together with specialist organisations such as EFFF and SAOS who can help you through the entire process. At some point in the process it will be necessary to take legal advice, but again EFFF or SAOS will be able to advise when to get lawyers involved.

Defra will shortly be providing RDPE funding to enable any dairy farmers to understand the possibilities offered by collaboration and to access skills training but this funding cannot include any funding of Producer Organisations directly.

Agreeing the basic concept

An important early stage is to develop and agree within the working group what the basic concept for a Producer Organisation is. Why do you want to

form one, what will it actually do, will farmers want to join, how will existing customers react. Having developed a basic concept this can be tested with farmers and other stakeholders before progressing any further.

Discuss the opportunity with other farmers

A collaborative venture such as establishing a Producer Organisation will be most successful if there are common goals and a strong commitment from all members. It is therefore critical that views of potential members are understood and there is a broad understanding of what the attitudes are towards embarking on such a venture. Throughout the process it will be important to maintain communication with potential members to ensure they are kept informed and remain on board.

It may be necessary, depending on the circumstances, to develop a more formal prospectus inviting potential members to join the Producer Organisation. This is an area where advice will be important.

The NFU has been building a database of farmers interested in Producer Organisations making it possible to contact like minded farmers and canvass their views.

Understand the views of your customers

Whilst a Producer Organisation is primarily established and run for the benefit of its farmer members, it is also important to recognise the needs and views of potential or existing customers. A good working relationship with customers can deliver benefits to all, such as better planning and investment decisions, faster decision making, greater efficiencies and increased profitability. Discussing the proposal with customers should therefore be considered.

New bodies involved in the supply chain such as Producer Organisations are often seen as threats, particularly by customers downstream but also by potential members. To overcome concerns it is imperative that the purpose and intentions of any Producer Organisation is set-out very clearly to demonstrate how any concerns are mitigated.

Developing a business plan

A business plan should capture all the key elements involved in setting up and operating a Producer Organisation. It should set out the vision and objectives of the business and its stakeholders, articulate the market potential, describe what the business will do and how it will operate, highlight the governance structure and provide a description of the executive team if required, set out how the organisation will engage with its members and customers and also show in some detail the financial requirements and lastly highlight what the risks are likely to be. The plan should also include a section on transition – how the Producer Organisation will move its members from their current position to the new one and in what timeframe. For instance, members may be required to terminate their

existing individual contracts with their processor. There are a number of business planning frameworks available which will help ensure that all the different areas are covered.

On the one hand the business plan is an internal document to satisfy the working group and potential members that the proposal is achievable; on the other it will be required to prove to regulatory bodies, such as the RPA, or to banks that the project has legs, as well as helping current and potential customers understand intentions.

Draft the legal documentation required

A number of legal documents will be required depending on what the Producer Organisation is setting out to achieve. At the very least the business will need to be legally constituted. Other documentation may include: members' agreements, sales contracts, employment contracts, loan agreements, logistics contracts, etc. At this stage, if not before, legal advice will be required.

Getting going

Once the concept has been developed, business plan finalised and members and other stakeholders are happy to proceed, the Producer Organisation can be formed, recognition sought from the RPA and it can start to deliver the benefits that it has been set up to achieve! Once established it will be important that the Producer Organisation regularly reviews its performance and measures whether the benefits it set out to deliver are actually being achieved.





SUMMARY AND WHAT NEXT?

This document provides an overview of what a Producer Organisation is, it outlines a number of areas that dairy farmers should focus on when considering the formation of a Producer Organisation and suggests a process to follow. However, the decision to set up a Producer Organisation should not be taken lightly; the reasons for establishment should be clear and it must be realised that it requires commitment of both time and expense to make it work.

Producer Organisations have the potential to put farmers on a stronger footing with their supply chain to rebalance bargaining power; however, they are not silver bullets that are going to change the fortunes of dairy farmers over night. Careful consideration needs to be given to the real outcomes from the formation of Producer Organisations both in terms of the benefits that they can afford but also to the risks involved.

There are a number of organisations who can help with the process, whether this is an initial discussion to explore an idea, to gain a better understanding of the options available or to help with the development of a Producer Organisation from concept to implementation.

The NFU and NFU Scotland have been building a database of farmers who have an interest in forming a Producer Organisation and this is a good place to start.

Other organisations who specialise in farmer collaboration and Producer Organisations include:

European Foods and Farming Partnership (EFFP)

Contact:
Duncan Rawson, Partner
07834 337346
drawson@effp.com

Scottish Agricultural Organisation Society (SAOS)

Contact:
James Graham, Chief Executive
0131 472 4103
james.graham@saos.co.uk