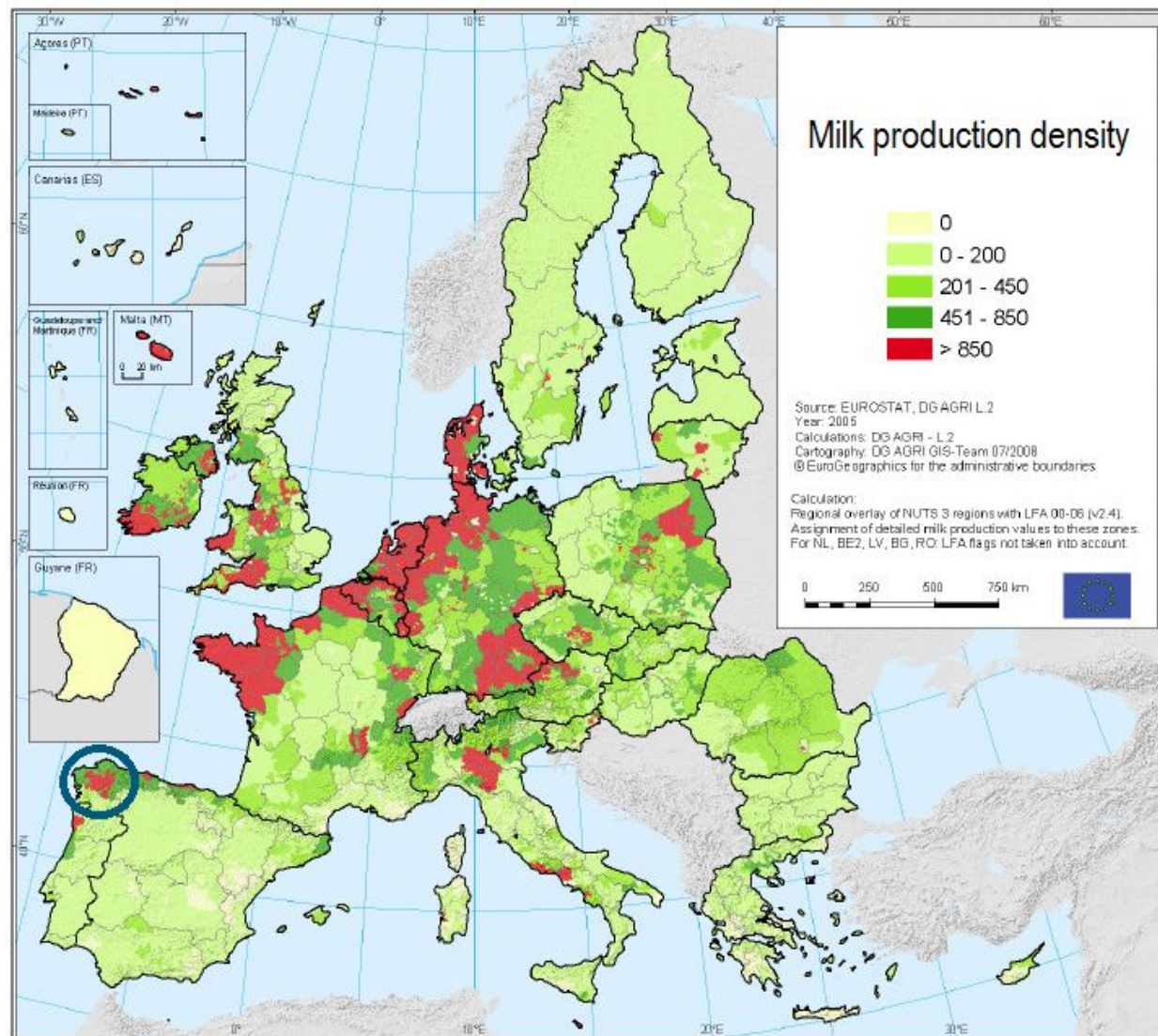


Galician Dairy Sector

Implementation of the dairy package

Milk production in Galicia



Galicia: Population: 2.763.499 Km²: 29.574 Population density: 93,4 (persons per Km²)

Has the dairy package fulfilled its objectives (e.g. improving the negotiating position of producers versus large retailers, reducing price volatility)?

The Milk Package enables:

- Contractual negotiations possibility
- To strengthen the bargaining power of the producers with the processors to achieve a more equitable distribution of added value along the supply chain
- Recognition of Interbranch Organizations
- Transparency in Dairy Sector

Has the dairy package fulfilled its objectives (e.g. improving the negotiating position of producers versus large retailers, reducing price volatility)?

To enable Contractual negotiations:

Spain decided:

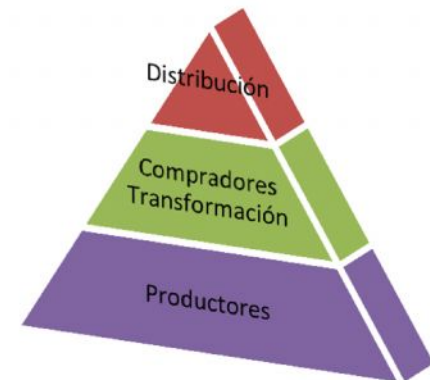
- To make the contracts in dairy sector mandatory
- Contracts with a length minimum of one year
- Only concerning raw milk

The three steps in the Spanish food chain:

1. Producing sector
2. Purchasers –Processors sector
3. Distribution sector

The Galician proposal:

- To extend this minimum length of 1 year to all steps in the food chain (from milk producers upwards to distribution companies)



Has the dairy package fulfilled its objectives (e.g. improving the negotiating position of producers versus large retailers, reducing price volatility)?

Negotiating power:

To strengthen the bargaining power of the producers with the processors to achieve a more equitable distribution of added value along the supply chain

- In Galicia there are two Milk Producer Organizations (MPO) authorized which represents 35% of Galician milk production. These two MPO were unable to reach the objective of negotiate the contracts for their associates.
- The producer right of rejecting contracts for one year duration was used by purchasers to force them to reject this type of contracts.
- These circumstances caused the milk price in contracts to be fix and a short real duration of contracts.

Interbranch Organizations:

- In the only interbranch organization existing in Spain (INLAC) isn't represented the distribution step of the food chain.
- The Galician proposal: To include the Distribution Sector in the Interbranch Organization (INLAC)

Has the dairy package fulfilled its objectives (e.g. improving the negotiating position of producers versus large retailers, reducing price volatility)?

Transparency:

- The European Milk Market Observatory (MMO) shows a very useful information about volumes and prices in the different EU members states, but not about regions
- The Galician proposals:
 - Volumes and prices at region (NUT2) level
 - To refer the data to standardized milk

What further measures might be necessary, in particular concerning cooperation between producers and processors?

- Cooperation between producers and processors seems to be a very complicated question because the both sides have opposing views.
- The Galician proposal is to adopt measures aimed at strengthening the producer sector because they are the weaker side in contractual negotiations:
 - Remove from text the producer right of rejecting contracts for one year duration and so avoid purchasers to force them to reject this type of contracts.
 - Forbid purchasers to negotiate directly with producers associated to an Milk Producer Organizations (MPO)

Is the dairy package an appropriate instrument for producers situated in disadvantaged regions?

- In the same way as in no disadvantaged regions, the dairy package is adequate instrument but it needs to be improved.
- In the actual circumstances with the finish of milk quota system , the dairy sector has a lot of uncertainty and this situation complicates long term agreements between the contracting parties.
- Furthermore, the dairy package will not be enough and will need to be complemented with other measures:
 - Associated aids through direct payments
 - Rural Development Aids for less-favoured areas (natural constraints) and areas with environmental restrictions

How could the competitiveness of the EU dairy sector be improved in general?

Milk Package:

- At EU level:

1. The European Milk Market Observatory (MMO) would show Volumes and prices at region (NUT3) level and refer the data to standardized milk.
2. Remove from text the producer right of rejecting contracts for one year duration and so avoid purchasers to force them to reject this type of contracts
3. Forbid purchasers to negotiate directly with producers associated to an Milk Producer Organizations (MPO)

- At national level:

1. To extend the minimum contract length of 1 year to all steps in the food chain (from milk producers upwards to distribution companies)
2. To include the Distribution Sector in the Interbranch Organization (INLAC)

How could the competitiveness of the EU dairy sector be improved in general?

Public Policy:

- Increasing intervention prices of commodities
- Providing a protection system to support producer margins
- Encouraging the producers integration in organizations who are able to transform raw milk (decreasing the number of steps in food chain)
- Adopting specific measures on reducing production costs
- Encouraging innovation and investigation programs
- Encouraging EU internal consumption of dairy products
- Publishing labelling regulations (origin, production method...)
- Avoiding use of dairy products as a way of luring clients