

Focusing food

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Introduction. Agro-food dynamics in the Baltic and Nordic context

Over the last several decades, the competitiveness of the European agro-food sector has been challenged by the emergence of new price leaders from far away nations and regions, such as the soybean complex in the Southern Cone of Latin America and the articulation of a meat (beef and poultry) complex in Brazil and a milk complex in Argentina.¹ These newcomers are able to produce food on a larger scale and at a lower cost than Europe, and this has altered power relations in the global agro-food sector. The global demand for food has also changed. The demand for basic foodstuffs stagnated in Europe during the 1980s, while demand has increased in low-income countries, and especially in the Middle East.²

This new situation has increased competition at the industry level, fueling a far-reaching concentration of agro-food companies, through mergers, acquisitions, and strategic cooperation.³ The changes in food demands have also produced a process of transnationalization of the food retail sector that has altered power relations in favor of retailers. For many years, the number one company in the Fortune Global 500 was the American retail chain Walmart, but it was surpassed in 2013 by Royal Dutch Shell. The European counterpart to Walmart is the French retailer Carrefour, a company with a net turnover of €77 billion in 2012, around 365,000 employees in 33 countries, and almost 10,000 stores in Europe, Latin America, and Asia.⁴ Moreover, countries and markets have become increasingly liberalized, and financial instruments are having a greater impact on agro-food prices than ever before.⁵ These new prices and payment schemes have been used by the industry to decrease the number of farms and to increase productivity and production per farm as a way to lower transaction costs.⁶

Globalization has been identified as the main cause of this development, but in the European context, there are also many internal dynamics that determine the main goals and direction of food and agricultural production. This is done through various policy instruments and subsidies, such as the Common Agricultural Policy (CAP).⁷

The agro-food sector has also developed a local dimension that has gained force in response to an increasingly globalized reality. In addition to supplying products that satisfy nutritional demands, rural

and agricultural businesses also offer recreation and leisure opportunities in beautiful landscapes, ensure future environmental sustainability and biodiversity, provide post-industrial job opportunities, promote growth, counteract depopulation of rural spaces, promote gender equality, and offer regions and nations a sense of history and tradition. This local dimension of the agro-food sector is characterized by the production of local food and other agricultural goods, and by a shift in focus from large-scale agriculture to rural development. Rural agents, and sometimes urban agents, have taken advantage of the new opportunities and have invested in new rural ventures. This has forced authorities to both develop new institutional regulations and promote the new ventures.⁸

The articulation and development of the agro-food sector in the Baltic and Nordic countries is highly influenced by the above mentioned development and by the CAP.

At the industry and retail level, mergers and acquisitions, foreign direct investments (FDIs), and strategic cooperation with companies in neighboring countries have become necessary for survival. The search for partners and investment opportunities in neighboring countries has been thoroughly explained by trade theories. Close geographical proximity often means that there are fewer cultural barriers, and it is easier to perceive opportunities concerning cross-border differences in factor prices or other conditions that might create competitive advantages and, therefore, motivate FDIs, mergers, or acquisitions. Some relevant examples are the expansion of the Swedish group Lantmännen, which has become involved in more than twenty foreign companies, mostly around the Baltic Sea.⁹ The Swedish retail company ICA, which has become the dominant food retail company in Sweden with more than a 50% share of the national market, has also expanded around the Baltic rim. ICA accomplished transnationalization through a joint venture with Kesko to establish the retail chain Rimi Baltic AB in Estonia, Latvia, and Lithuania.¹⁰ However, cross-border investments in the area are not only performed by large industries, but also occur on a smaller scale.¹¹

Regarding farms, the number of these in all countries in the Baltic-Nordic area decreased substantially between 2000 and 2010. For Sweden, the decrease in

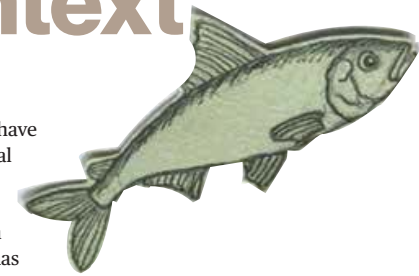
farms seems to have reached a critical point because the value of output between 2007 and 2010 has stagnated, while the value of output in Estonia, Latvia, Lithuania, Poland, Finland, and Norway has increased during the same period.¹²

There is a broad consensus that the changing dynamics of the world market and the rationalization of the farm and industry level gives rise to two main responses at the level of the farm: a focus on increased productivity and a focus on diversification and sustainability. The latter focus is also denoted as *post-productivist* or as the *new rurality*.¹³

In the Baltic-Nordic area, post-productivism is characterized by many different parallel processes. A wave of migrants who are searching for better living conditions and who are equipped with economic resources and managerial and marketing skills have started to develop of new rural firms. Farms are building inns or offering other activities for tourists to complement farm activities.¹⁴ Seasonal workers from Poland, Estonia, Latvia, and Lithuania migrate to Sweden and Finland to work on farms, pick berries, and plant forests, often as a recurring activity from year to year, in search of additional sources of income.¹⁵ In return, Danish, Swedish, German, and Finnish firms are initiating FDIs in agro-food activities in Estonia, Latvia, and Lithuania.¹⁶

Although the Baltic-Nordic area could be seen as a homogenous region within the European Union (EU) due to shared climatic conditions and geographic location, the agricultural and rural trends in the countries of this region vary widely. These differences become even more pronounced when compared to the rest of Europe, especially if we analyze the adoption and implementation of the CAP. European countries can be classified into four distinct categories based on their structure and response to the CAP:

In countries such as Sweden, with highly rationalized agriculture and with only a few remaining pockets of traditional agriculture located primarily in less favored areas, the diversification and heterogenization of rurality is a very recent phenomenon. Some



scholars argue that these countries have suffered from a loss of food culture and that they have become “placeless foodscapes”¹⁷ or “food deserts”.¹⁸ An important feature of these countries is that the harmonization of the national implementation of the CAP has been slower and has had some unexpected outcomes, as is illustrated by Bonow and Zurek in this volume.

Contrary to the previous category, in countries with a large, heterogeneous, and geographically spread-out agricultural sector, such as Italy, France and Norway, small-scale agro-food industries, often characterized by culinary features, are just as important as large-scale agriculture. In these countries, the use of political tools (e.g., subsidies) designed to promote small-scale agriculture, rural diversification, and multifunctionality in agriculture never disappeared. These features are associated with the size and structural characteristics of the agro-food system as well as its contemporary history.¹⁹

Countries that proactively adapted to the EU, extracting the best of it and in which the new rurality is a recent construction, for example Austria. A main feature is that the pro-active attitude of the state in combination with the geographical proximity to “successful experiences” facilitates the adoption of policy instruments that were developed departing from type two countries.²⁰

New EU members from the Eastern European and Baltic countries (EEBCs) experienced two waves of change. First, socialism was replaced by capitalism, which discontinued existing structures and regulations because of the liberalization of prices, the opening up of imports from abroad, and the promotion of land reform to restore land to owners from the “pre-Soviet” period. After admission to the EU, agriculture and rural development was placed under the rubric of rural development, but with different conditions than in the EU-15.²¹ The EEBC countries have very different features and economic structures. When the expansion of the EU was set in motion, the agricultural contribution to GDP was larger from the ten EEBCs than from the EU-15, with 21% of that share coming from Bulgaria and 15% from Romania.²²

THE COUNTRIES THAT ARE the focus in this section on food and food production in this issue of *Baltic Worlds* mainly belong to the first and fourth categories described above, except for Norway, which is not part of the EU and, therefore, is only indirectly influenced by the CAP. Moreover, despite findings from previous research, Norwegian agriculture and rurality would fit in the second category due to their diversified agricultural sector, and because they have managed to maintain important parts of their traditional agro-food production, a phenomenon illustrated by Tunón et al. in this volume.²³

Estonia, Latvia, Lithuania, and Poland have major structural differences, but the countries share a similar history of land tenure, power structure, and development levels related to the degree of success or failure of the collectivization of agriculture under Soviet rule.²⁴ Although collectivization was more successful in Estonia, Latvia, and Lithuania than in Poland, the post-Soviet development of agricultural structure and income seems to be the same in all countries. Land tenure and land utilization trends show that the num-

ber of holdings is decreasing in all countries, while land utilization is increasing in Estonia, Latvia, and Lithuania and decreasing in Poland. All four countries have experienced a positive development of farm output.²⁵

Unlike those four countries, Sweden and Norway experienced agricultural and rural development under capitalism. The agenda for agriculture, rural development, and the articulation of the agro-food sector was initially set by the state in both countries, partly conditioned by factors specific to each. The main difference between the two countries is that Sweden is part of the EU and is thus exposed to the dynamics of the common market, while Norway still maintains a national agro-food policy model.

Agro-food realities and dynamics in the Baltic and Nordic countries are often neglected in the European context. Although the same processes of increased levels of productivity and a turn toward diversification are under way in all EU countries, the starting points of the Baltic and Nordic countries are quite different from the rest of Europe, due to institutional, structural, geographical, and especially climatic factors. In addition, because of a changing reality, there are significant institutional and knowledge gaps that need to be addressed. Answering new questions about the agro-food sector in the Baltic and Nordic context can contribute to a better understanding of the actual agro-food reality in the EU, and the development of political tools that facilitate the process of convergence in a more democratic way. The articles presented in this volume answer important questions about the implementation of the CAP in the Baltic and Nordic context, about institutional gaps, about perceptions of nature, and about regional integration in the Baltic rim area through FDIs. ■

Note: Paulina Rytönen has been in charge of the peer-review process for the four articles in this section.

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Foreign investment and economic integration

Meat industry in the Baltic Sea Region

By **León Poblete & H. Richard Nakamura**

Regional integration processes have been a focus of academic interest since the 1950s and have taken on more importance since the 1980s,¹ primarily because of the development of the European Union. Regional integration in the form of free-trade unions is an important issue because it offers a chance for small open economies to expand the size of their international trade and to obtain similar benefits as larger economies. This comes with all of the implications that this entails for the investment strategies of multinational firms, the development of competitive advantages, and the increase of scale economies.² In addition, Stirk (1996) argues that there has been a tendency for richer countries to open up for regional integration with poorer neighboring states.³ Regional integration offers firms incentives to invest more locally by reducing transaction costs and thereby increasing the rate of return on capital. The European Union's inclusion of the Baltic states and Poland in 2004, for example, brought about a 6% average increase in foreign direct investments measured as foreign direct investment stocks.⁴

Most foreign direct investments have been directed to the manufacturing sector. The food processing industry represents the largest industrial subsector, and accounted for 15%–20% of all manufacturing sector foreign direct investments during the 2000s.⁵ Since the mid-1990s, food manufacturing foreign direct investments have increased in quantity because the overall increase in earnings and living standards has led to increased consumption of meat and meat products. This development of the food consumption pattern is in line with a global trend of increasing meat consumption and production.⁶

Despite this development, very few studies exist that cover food industry foreign direct investments in the Baltic Sea region – defined in this study as the European Union member states surrounding the Baltic Sea except for Germany – in general, and even fewer studies cover food industry mergers and acquisitions

in particular. The exceptions include the study by Hunya (2004), who covered the food industry as a part of an overview of foreign direct investments in the Baltic Sea region, and the consumer trends study by Kniuiptyté (2012).

Thus, the purpose of this paper is to *analyze the motives of the food industry's foreign direct investments in the meat industry in the Baltic Sea region and to determine how institutional factors influence investment decisions*. This study will evaluate and provide a meso-level perspective by investigating the extent to which foreign direct investments in the meat industry, the largest subsector of the food industry, have contributed to economic integration in terms of the integrating and upgrading of local businesses in the Baltic Sea region. Thus, with the intention of finding possible answers to these questions, we investigate a number of interrelated issues that help us understand the impact of the flow of foreign direct investment on the local small and medium-sized firms in the Baltic Sea region's meat industry.

TODAY'S GLOBAL PRODUCTION networks, built up by flexible non-equity modes of international production such as contract manufacturing, outsourcing, and offshoring,⁷ have changed the time dimensions of international manufacturing firms, and long-term investment commitments are no longer a prerequisite for production operations overseas. The phenomenon of “born globals”,⁸ which describes instant or rapid internationalization of business ventures, is an example of today's dynamic global business environment. However, the basic arguments of mainstream internationalization theories are still valid.⁹ In order for firms to establish international business activities, the firms must usually possess superior competitive qualities than incumbent firms.¹⁰ Moreover, closeness of markets,¹¹ business network embeddedness,¹² and cultural proximity¹³ have also been forwarded as significant factors to explain the internationalization process of firms.

One concrete expression of business internationalization is foreign direct investment, which is a significant feature of today's globalizing economy. Here, we are referring to two particular modes that multinational corporations can utilize: greenfield investments, where firms build up brand new operations in a foreign country, and cross-border mergers and acquisitions where firms acquire existing firms in the host country. These two modes are generally different not only in nature but also in terms of the type of firms that undertake greenfield foreign direct investments and cross-border mergers and acquisitions. For example, Andersson and Svensson (1994) and Blonigen (1997) have found that firm characteristics, such as industrial affiliation and firm-specific competitive skills, determine what type of foreign direct investment mode is chosen. Furthermore, Dunning (1992) and Dunning and Lundan (2008) have attempted to incorporate these aspects when categorizing foreign direct investments into four different types, namely, resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking investments. As Dunning correctly observes, contemporary foreign direct investment activities are pushed by competitive pressures and scale economies.

The location of the host country, the market size, and possession of firm-specific capabilities are all examples of key factors acknowledged in the theoretical literature as being attractive to foreign direct investments.¹⁴ Furthermore, institutional changes, such as the establishment of free-trade areas¹⁵ and large-scale isomorphic industrial organizational patterns among firms¹⁶ inside the free-trade areas, have also been pointed out as important pushing factors for foreign direct investments. Other factors for foreign direct investment decisions that have been intensely discussed in the foreign direct investment and international business literature are host-country technology absorption abilities and institutional risks associated with technological transfers.¹⁷ In this way, institutional factors are

recognized as being strong determinants for foreign direct investments¹⁸ and for mergers and acquisitions in particular.¹⁹

However, industry level studies on mergers and acquisitions in the Baltic Sea region addressing institutional factors in investment decision making are, to the best of our knowledge, very scarce. The long-term retention of the investments made by foreign firms, which is promoted by governments of the Baltic Sea region with the hope of positive foreign direct investment spillovers, is dependent on the host country's institutional context.²⁰ From the foreign investing firms' perspective, the influence of institutional or contextual embeddedness²¹ on corporate governance and strategic managerial decisions made by the internationalizing firms operating in a global context has become more important than ever before in international investment decisions. Still, after some 25 years of transition from the Soviet-style command economy to a European Union economy, corruption and the question of how to handle issues relating to the gray-sector economy²² are a reality for foreign investors in the eastern Baltic Sea region. Studies on institutional hazards have shown that there is a strong negative correlation between the level of activities of foreign firms and affiliates on the one hand and weak governance structures and general attitudes towards institutional hazards on the other.²³

Thus, we need to address features of contemporary foreign investments that have been largely ignored by the foreign direct investment literature and introduce institutional aspects to the research when we discuss patterns in foreign direct investment behavior and motives. Obviously, there is a need for mergers and acquisitions research that also introduces complementary perspectives to help us better understand the foreign direct investment patterns in the Baltic Sea region. This work discusses the nature of the mergers and acquisitions in the meat industry by taking an institutional perspective on foreign direct investments in the eastern Baltic Sea region.

THE COMPANIES SELECTED for this research were first identified through the ORBIS/ZEPHYR²⁴ company, mergers and acquisitions databases, and expert interviews at consulting companies, academies, organizations, and governmental institutions related to the mergers and acquisitions of the meat industry in the Baltic Sea region. We started with 96 companies and narrowed down the selection to 63 approachable companies. A request was then sent to these companies, of which 37 replied to our query. Respondents were contacted via e-mail and telephone to inquire if they were willing to participate in the study, and 24 companies and organizations finally agreed to interviews at the location of their choice. Chairmen of the board and Chief executive officers were chosen as respondents due to their insights into mergers and acquisition decisions. All interview data were checked through respondent validation. Follow-up questions were also sent to the respondents by e-mail after the conclusion of the interviews in order to improve the understanding of particular issues.

The intention of the in-depth interviews was to get perspectives, feelings, memories, and reflections that could not be observed or discovered in other ways.²⁵

The interviews had a retrospective starting point, and we asked the respondents to describe in detail their companies' journey toward mergers and acquisitions in the Baltic Sea region – illustrating both positive and negative experiences – and to reflect on personal and technical challenges and solutions. Interviews were semi-structured, in that all respondents were asked a series of identical questions, but they were also open ended. This approach ensured commonality of topics across interviews while also encouraging respondents to expand into issues that they regarded as important.²⁶ The validity was assisted by using multiple sources of evidence,²⁷ thus not relying solely on the interviews. We supplemented and triangulated the interview data²⁸ with a comprehensive set of archival data, organizational documents, and publicly available documents such as corporate websites, annual reports, and the firm's documents. In order to come up with the analysis and conclusions, we coded the interview transcripts and organized and analyzed the data systematically. This involved locating, coding, and interpreting the material, and this enabled us to weigh and evaluate importance and visualize the relationships between the variables. Nonetheless, as proposed by Griggs (1987) and Patton (2002), quotations from case studies are included in order to add to qualitative insights and provide support to the data interpretation. The identity of the respondents has been anonymized.

Motives for investments and foreign acquisitions

Internationalization theories state that firms choose new markets according to their perceived geographic proximity and cultural distance, and due to uncertainty they limit investments and only gradually increase commitments to foreign markets.²⁹ The model also assumes that firms, after gaining international experience, will gradually invest further away from the domestic market. In line with these mainstream internationalization theories, the meat producing companies in this study had started or were about to expand progressively into nearby overseas markets. By using foreign direct investments as their internationalization mode, the meat industry mergers and acquisitions can be broadly grouped into market-seeking and efficiency-seeking motives.³⁰ Respondents gave the overall market size, costs, location, and opportunities to expand into other markets through exports as the rationale for investing in the eastern Baltic Sea region. For example, the eastern Baltic Sea region is usually regarded as a bridge for exports to other larger markets such as Russia, Belarus, and Ukraine due to their common history, language, and traditions that provide unique knowledge of the market and logistic conditions in the eastern border region of the European Union. Thus, the merger and acquisition decisions of the investing firms have reflected both the new market opportunities that opened up in the eastern Baltic Sea region during the 1990s and the diminishing opportunities for growth in the mature western Baltic Sea region markets. Interestingly, the company respondents argued that foreign direct investments within the meat industry are mainly market-seeking because labor and production costs are not major factors due to the

intensive use of machinery in production. Instead, the desire to produce closely to the markets they serve is more prominent. However, these respondents still considered labor and production costs as important factors when *deciding* to invest:

“Certain Swedish and Finnish companies have succeeded in decreasing production costs by 30%–40% in comparison to production in their home countries. In terms of distance, since the Baltic states and Poland are close to countries such as Sweden and Finland, it allows quick deliveries, which is very important in the meat production business”

Finnish meat company chief executive officer, interview, April 25, 2011

Industry competitiveness and cost structures

Increasing animal feed prices and shortages of cattle in some countries constitute another concern for the meat processing companies. Animal feed prices are fluctuating due to the global macroeconomic situation, which obviously also affects the meat industry's cost competitiveness. The Baltic states' inclusion in the European Union has also increased the international competition making it difficult for the Baltic and Polish meat processing companies to compete within the European Union market single-handedly. In addition, our respondents added that consumer demand in the Baltic states for new products of high quality is increasing. At the same time, consumers in western markets are more concerned about the origin of agricultural products, which affects companies in the eastern Baltic Sea region negatively. The analysis of the interview data of the cases also suggested that, in general, western consumers tend to associate products from Eastern European countries with low quality and this decreases the potential demand and pushes local producers engage in price competition. For instance, the meat industry in Lithuania is mainly dominated by meat producers and meat processing companies (e.g., livestock production, slaughterhouses, and meat packaging) that operate on a small scale. This results in low labor productivity, low competitiveness of the primary livestock production, and difficulties in complying with quality, hygiene, environment, and animal welfare requirements.³¹

However, there is currently an ongoing development in the Lithuanian meat industry that is similar to what occurred in Poland during the 1990s when the Polish meat industry was restructured in order to create more productive and cost-efficient companies in the market³². Indeed, all respondents agreed that the foreign direct investments in the meat industry have contributed to applying new technologies and innovations to host-country firms in order to decrease costs of production and to ensure food safety requirements, which are required to create new products and to increase value-added meat products. The margins in the meat business are narrow and under constant pressure from price-conscious customers, which has led to technology and scale becoming critical factors for sustained competitiveness.

In line with earlier studies on foreign direct invest-

ment spillovers,³³ foreign direct investments in the Baltic Sea region meat industry are perceived by the respondents as having a positive impact on economic development in terms of higher productivity and production efficiency. Foreign direct investment spillover effects in terms of upgraded technology, production improvements, and creation of new jobs are evident. Development and training of labor skills and creating job opportunities for highly qualified labor are also other common spillover effects from foreign direct investments. In other words, by acquiring a company in the eastern Baltic Sea region, western Baltic Sea region firms have decreased production and labor costs. Furthermore, location advantages and logistics are reported by the respondents to be relevant factors for companies operating in the meat industry because infrastructure and proximity to headquarters are perceived as facilitating business control. On top of this, the total population of the Baltic Sea region is large, and the potentials for economic growth are expected to be positive. This gives an additional advantage to foreign direct investments through mergers and acquisitions, namely, to acquire established brands and use them as a platform for building brands new to the host market. Thus, the main motives for the foreign direct investments are principally the opportunities associated with the ongoing economic growth that is still present in the eastern part of the Baltic Sea region while the markets of the western Baltic Sea region countries have become mature. Given this position,

“the main motives and driving factors in mergers and acquisitions are to increase efficiency, brand recognition, and market share in order to become stronger in the host market.”

Swedish meat company business development director, interview, June 17, 2011

Acquisitions and the market adaptation process

Since the dissolution of the Soviet Union, foreign investors have been acquiring food production companies in the eastern Baltic Sea region. In the case of Sweden, Swedish meat companies and investors have made significant investments and acquired a considerable number of firms in the Baltic states and Poland during the past decades. Decisions to invest through acquisition generally allow faster access to a host market because companies can benefit from the existing market share of the acquired company.³⁴ Although our respondent companies normally started by acquiring minority stakes in companies, they have since moved to full ownership. The rationale for this acquisition behavior is simple: acquiring another company is the fastest and most effective way to further develop an enterprise and gain market share in foreign markets. As one respondent put it,

“acquisitions are very interesting because additional market share and brand name can be obtained.”

Danish meat company chief executive officer, interview, June 22, 2011

Employing local management is arguably an effective and efficient way to improve company operations in a foreign country because they are a part of local business networks, native speakers, and understand the local culture and market conditions.³⁵ Respondents have also highlighted the importance of communicating to the local staff what business culture is desired in the organization in order to minimize risks and uncertainties. Efficiencies generated through mergers and acquisitions can improve the target firms' ability to compete and can result in lower prices, enhanced quality, enhanced services, or new products. As a result, firms prefer to acquire already productive plants and improve their productivity even further after the acquisition.³⁶

“Foreign direct investments have an important role in the economic development of the Baltic Sea region because foreign direct investments are usually long-term investments, and this money allows companies to rebuild instead of taking a loan from the banks.”

Latvian meat company chief executive officer, interview, March 23, 2011

However, another respondent also argued that

“money is not the only important part but the knowledge that comes along with foreign direct investments, because the Baltic states only have had 20 years of independence from the Soviet Union.”

Lithuanian meat company chief executive officer, interview, April 13, 2011

All respondents stated that it is essential to understand that the three Baltic states – Latvia, Lithuania, and Estonia – are different markets with individual consumer preferences, buying habits, and competitive conditions. This makes it difficult for foreign companies to design one single strategy that fits all three markets of the Baltic states simultaneously. Indeed, many companies are not aiming to be the number one in the market, but rather, the respondents expressed a wish to be present throughout the region or to be close to some of their customers. Without having strong international brands, companies might start to expand within the Baltic Sea region, thus obtaining a better position for further internationalization and establishment in larger markets such as Russia or Germany. The meat industry companies are usually not driven by a global strategy; the region is still growing and investors identify opportunities in the transition. Our company respondents forecast exports to increase in the next five years because the meat industry is expected to continue increasing its production overall. This is also the view the European Commission (2007) and FAO (2011) have on the future meat market developments, and they expect that the demand for meat will increase steadily in the next ten years.

The meat processing companies from the western Baltic Sea region, particularly the pork producers, are also attempting to relocate their production facilities to the eastern parts of the Baltic Sea region so as

to capitalize on the region's comparative advantages such as cheaper land and labor, laxer environmental regulations, and access to other markets. In interviews with the authors on April 13, 2011, representatives of the Lithuanian Meat Processors Association and the Embassy of Sweden, Lithuania, discussed less attractive sides of foreign direct investments, which have caused local discontent and negative attitudes, because these live stock breeding foreign investments often affect the local environment negatively in terms of soil contamination, bad odors, and noise pollution.

In the eastern Baltic Sea region, lack of transparency, bureaucracy, and corruption are still recognized as a major problem when doing business.³⁷ The same picture is also given by our respondents, and corruption in particular was identified as an obstacle for business development in the region. One respondent believed that

“in comparison with Scandinavian countries, the Baltic states have a much lower purchasing power, in particular Lithuania, thus, corruption is considerably high and open. . . . This world might be normal in a global context, but it really contrasts with Scandinavia as people there are more used to transparency, organization, things must be fair, and so forth.”

Norwegian retail company subsidiary chief executive officer, Lithuania, interview, April 14, 2011

Our respondents have also stated that the meat industry in the eastern Baltic Sea region is still affected by the gray market, and the existence of illegal trade activities such as unprocessed meat and meat products being smuggled in the border regions, particularly from Poland to Lithuania, has been increasing significantly. As a result, transactions with cheap input material without a traceable source for the meat production are still a problematic issue because certain small companies might be pressured to keep production costs low, disturbing free enterprise and free competition in the region.

“In some cases, meat is transported from one country to another without monitoring and controls for infections, viruses, etc., which is extremely dangerous for consumers.”

Norwegian retail company subsidiary chief executive officer, Lithuania, interview, April 14, 2011

The existence of a heavy bureaucracy is a challenging factor to overcome in the eastern Baltic Sea region because excessive administrative procedures in document handling are required and usually processed inefficiently by bureaucrats. It is hard to assess the spread of corruption in the eastern Baltic Sea region because many intermediary activities are embedded in the local business culture as relationship and/or friendship networks. Nevertheless, this has serious implications in terms of significant transaction costs for daily business operations.³⁸ In an interview with the authors on April 9, 2011, a representative for Business Sweden Warsaw office suggested that one way to circumvent this problem is to build informal personal networks.

Respondents in this research have highlighted that

in many cases the governments are aware that some meat companies in the eastern Baltic Sea region evade taxes and avoid legal salary procedures. Moreover, the Baltic states are relatively less corrupt than other Eastern European countries but are still far behind the world's least corrupt nations of the western Baltic Sea region.³⁹ This exemplifies differences in perceptions concerning corruption, which can also be reflected by the so-called gray economy. The gray economies of the three Baltic states are the biggest in the European Union behind Romania and Bulgaria and account for about 30% of the gross national product in Lithuania and Estonia and 27% in Latvia compared to the European Union average of 20%.⁴⁰

Conclusions

Over the past decades, there has been a major transformation of the meat industry in the Baltic Sea region. After the fall of the Soviet Union in the 1990s, important parts of the meat industry in the eastern Baltic Sea region were managed and owned by governments and small local companies. The meat industry was relatively weak and underdeveloped with outdated production facilities and low productivity. On the other hand, the potential for economic growth in western economies has been decreasing and markets are, to a large extent, mature. Thus, the transition from a planned economy to a market economy and the opportunities presented by the ongoing economic growth in the eastern Baltic Sea region, along with the lack of opportunities for substantial new growth in the western Baltic Sea region, has led to considerable changes in the meat industry throughout the region. As a result, the ownership structure and the characteristics of the industry have changed significantly. In the eastern Baltic Sea region, the meat industry has moved from an underdeveloped, state-owned, and domestically focused position to a privately owned one focused on the international market. Hence, international ownership has increased over the years, mainly through mergers and acquisitions, and Nordic companies have been important actors in this development. Moreover, inclusion in the European Union and the harmonization of laws and regulations have also enhanced the eastern Baltic Sea region's attractiveness for investors. These factors have changed the way meat is produced, processed, and marketed because companies in the Baltic Sea region are focusing on growth and economies of scale in order to maximize the rate of return on capital and to be competitive in the international market.

LET'S NOW MOVE to the economic impact on local firms from foreign direct investments in the meat industry. Our empirical data suggest that foreign direct investments have had important positive spillover effects on the host-country firms in the eastern Baltic Sea region in terms of productivity, delivery performance, quality standards, technology transfer, efficiency, and upgrading of managerial and labor force skills. Other indications of host-country spillover effects from foreign firms in the meat industry have been increases in productivity and innovativeness of local companies through increased competitive pressure and knowledge flows. Furthermore, increased competition



Cattle on a farm in Estonia.

has forced host-country companies to cooperate, improve, and further develop a range of qualities such as efficiency, effectiveness, innovation, technology, and working conditions, which are needed to remain competitive. Other dynamic effects from foreign direct investments, which we recognize from earlier research,⁴¹ have also been the creation of new enterprises and performance improvement of local companies after acquisitions.

IT IS OF INTEREST to take into account the institutional factors for investment decisions. Even though countries in the eastern Baltic Sea region have undergone significant reforms involving privatization and changes in legislation and institutional arrangements, the meat industry is still affected by institutionally inclined systemic inefficiencies inherited from the Soviet period. Corruption, lack of transparency, bureaucracy, and a gray economy are still hampering factors for corporate growth, but they also have consequences in terms of food security, animal welfare, the long-term sustainability of the industry, and human health due to inappropriate control and poor monitoring of the meat production. Firms in this study have been aware of these risks when making the decision to invest in the region. Thus, despite the significant market potential of the eastern Baltic Sea region, our respondents considered these issues effective deterrents to a normally functioning market economy and efficient governance of this part of the region. Kivikari (1998) correctly observes that commodity trade alone cannot unify a market and that foreign direct investments considerably promote the creation of new networks and lead to a long-term integration of the national economies. Interestingly, the governmental investment promotion organizations in the region have had a moderate role in the actual investment decision-making process of our respondent firms. Their

role has rather been to provide general information on countries' investment environment. Therefore, improving the institutional infrastructure, decreasing firms' transaction costs, and integrating the Baltic Sea region markets at all levels (i.e., not only trade and foreign direct investments in the eastward direction from western Baltic Sea region) would strengthen competitiveness of the meat processing firms in the eastern Baltic Sea region.

This has given several contributions to the economic integration of the region. As discussed in our theoretical framework, one of the key determinants of foreign direct investments is the technology absorption capacity of the host country.⁴² In the sense of integration and upgrading of local meat companies in the region, western Baltic Sea region meat producers have contributed to the economic integration of the region. Our empirical evidence has been in line with such a proposition. The respondents stress the importance of the institutional and economic conditions of a host country and their abilities to channel and absorb the technology inflows. Such factors have contributed to shaping and motivating investment decisions of Baltic Sea region meat industry companies as part of their growth strategies. The meat companies in the eastern Baltic Sea region have considerable potential in terms of ability to attain higher levels of competitiveness through continued capability transfers from foreign direct investments to host-country firms. By combining the know-how and technological capabilities of the western Baltic Sea region firms with the diligence and capacity to produce at lower costs than the eastern Baltic Sea region firms, the meat industry can produce more value-added products at competitive production prices. Thus, the future development of meat industry companies in the western Baltic Sea region is to a great extent dependent on the development of the eastern Baltic Sea region meat companies, and vice versa. ■



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Regulating local food

Lessons from Poland and Sweden

By **Karolina Zurek**



The EU policy in general, and the strategy for the Baltic Sea region¹ in particular, emphasizes ecological concerns and envisions sustainable production as a key for preserving the Baltic Sea for future generations. Although this goal is broadly accepted in the region, economic and social differences have caused the regional states to adopt and promote different strategies in order to achieve this aim. However, in the implementation of this strategy, as well as in the implementation of other EU policies, it has been noted that the objective of sustainability might require different policy prioritizations in different EU Member States. Regulation of food production and consumption is a particularly interesting topic in this context. The Nordic countries – characterized by wealthy and ecologically concerned consumers – have increasingly sought to promote sustainability on the consumer side through labeling of ecological alternatives and encouraging local procurement. The Baltic countries and Poland, in contrast, have recently underscored how already existing local small-scale production serves the overall aim of sustainability and might work as a model for the region.

In both approaches, an important function is assigned to the idea of “local”. In recent years, the concept of local food systems (LFS) has received growing attention from social activists, politicians, and researchers.² Although researchers in sociology, geography, and anthropology have been trying to understand the meaning and the implications of the local food phenomenon, legal scholars have given it very little consideration.³ By building on the existing research in the humanities, this article aims to provide an understanding of the role of law and regulation in facilitating or limiting the “local” path to sustainability. This article focuses on the example of a recent

local initiative in a southern region of Poland and juxtaposes it with Swedish experiences of a different application of the “local” concept, and shows ways of utilizing the discourse of proximity in two different legal systems in the Baltic region. The objective of this work is to first analyze the nature and source of the regulatory constraints on the development of localized food strategies in the two states, and more generally in the EU, and then assess the suitability of the two strategies in their associated legal and empirical contexts.

Localizing food production

Ideas of local food, now taken up by policy makers and public authorities at the national as well as transnational level, are not new. They originate largely from social-movement activism. In the 1970s, European and North American discourses of “small is beautiful” developed an orientation towards re-localization of food production and consumption.⁴ Local food was envisaged as an alternative to the disconnected relationship between producers and consumers offered by conventional globalized food systems.

A significant variety of ideological food movements have developed since that time. Although they are all based on a similar set of values, they vary in accordance with which value they choose to emphasize. These range from physical proximity and shortened value chains, community and direct relationships between the producer and consumer, to the quality connected with the specificity of the place of origin, or *terroir*.⁵

Interestingly, most LFS are based on a down-chain perspective of production and define food as local before the link to the consumer has ever been established. Hence, consumers are, in a way, constructed

as un-localized passive recipients rather than as contributors to the process of localization and the meaning of local food.⁶ More recent, progressive LFS movements have expanded their sets of values to include objectives such as community food security and local resilience and stress the importance of socio-cultural embeddedness.⁷

In the EU, the LSF movement took the form of a quality shift and became entrenched in the EU agricultural product quality policy.⁸ Here, quality is attributed to features such as geographical and climatic specificity, traditional farming and production practices, and specific local trust and knowledge. Three major protection schemes have been developed: protected designation of origin (PDO), protected geographical indication (PGI), and traditional specialty guaranteed (TSG). The policy’s value background is presented in the preamble to the Regulation: “Citizens and consumers in the Union increasingly demand quality as well as traditional products. They are also concerned to maintain the diversity of the agricultural production in the Union. This generates a demand for agricultural products or foodstuffs with identifiable specific characteristics, in particular those linked to their geographical origin.” It is important to notice that the reference to locality is indirect through the combination of “specific characteristics” and “geographical origin”. One explanation for this construction is the attempt to avoid recreating political divisions between the Member States and to reduce room for the occurrence of discrimination and protectionism. Hence, place of origin is created not through reference to its political belonging but instead as a “socio-natural construct”.⁹

Although the quality policy is the most widely known example of the EU’s integration of the LFS objectives, the notion and value of “local” have slipped into the EU regulation through other paths. In those

cases, local is seen as an exception to the general rule and is applied under strict conditions. However, these examples are likely to be the true application of LFS concerns in that they clearly refer to the original objectives of the movement and explicitly serve the objectives of sustainability. The following section highlights some examples of such alternative uses of the concept of localization within the EU regulatory system.

Alternative approaches to LFS in the EU

The first alternative way to embrace the concept of “local” in EU regulation emerged primarily in the context of enlargement. In this context, “local” was used to refer to the restricted dispatch market for products originating in the acceding states that did not fully conform to the Single Market rules. Although the original aim of “local” was to signify a limitation, from the perspective of many new Member States, the rule was interpreted more as one that created an opportunity. This was especially the case with regard to small-scale producers, who under this exception were allowed to continue their production irrespective of the fact that they were not able to live up to all of the strict production standards. This specific interpretation and the consequences of this mechanism in the case of Poland will be presented in the following discussion.

In the wake of Poland’s accession to the EU, ac-

knowledge of the existing discrepancies between the EU requirements and the Polish rural reality propelled development of a number of contingency options to facilitate survival of the most disadvantaged participants of the agro-food sector. Transitory measures for adjustment were agreed upon that included, on the one hand, a reduced level of direct payments for Polish farmers and, on the other, extended time for some of them to adjust to the EU rules (e.g., hygiene and sanitary standards). This made it possible for Polish farmers to continue infrastructural upgrading after the date of accession on the condition that they sell their products exclusively on the local market. Moreover, a number of mechanisms to relax some of the stringent EU requirements were created to target small-scale producers. The two most significant of those exceptional provisions are described below.

Direct supply

Regulation 852/2004 on the hygiene of foodstuffs¹⁰ lays down detailed and very stringent hygiene rules for food business operators with the aim of guaranteeing food safety throughout the EU. It recognizes, however, that in the case of the direct supply of small quantities of primary products by the food business operator producing them to the final consumer or to a local retail establishment, it is appropriate to protect public health through national law, particularly because of the close relationship between the producer and the consumer. Despite the overarching objective of unification of conditions for all participants in the Single Market, the Regulation leaves room for diversity. This provides an opportunity for national

lawmakers to establish locally applicable conditions that would achieve the same effect of guaranteeing food safety and public health, but would be more adjusted to local conditions and limitations. At the same time, it indirectly provides a window of opportunity for those local food

producers who would not be able to live up to the EU requirements but who can, by available means and knowledge and in accordance with national legislation, guarantee the safety of their products.

Therefore, direct supply is largely based on LFS ideas, and in particular on the significance of trust and shared values in the direct relationship between producer and consumer. Hence, it is based on the assumption that in the short value chain of direct supply, the consumer’s knowledge of and personal relationship with the producer makes the need for state certification redundant, and the traditional knowledge of the producer, with minor intervention by public regulation, is sufficient to guarantee public health. An important challenge for the national legislator, however, is to provide rules defining and limiting the application of the direct supply mechanism that would be suitable in their local context and guarantee a minimum level of health protection. In Poland, an order of the Minister of

Health¹¹ described direct supply as “exercised directly by producers of primary products, who supply small quantities of foodstuffs to final consumers or to local retail establishments selling to final consumers”. Furthermore, it limits the amount, by specifying “small quantities”, as well as the type of foodstuffs that can be considered under this mechanism. Finally, the order specifies the definition of the local market in which direct supply can take place. The local market is defined as the territory of the voivodeship (provinces in Poland) where primary production takes place and/or neighboring voivodeships.

Marginal, localized, and restricted activity

Regulation 853/2004 on specific hygiene rules for food of animal origin¹² constitutes an important element of the large package of hygiene rules adopted in the EU in 2004, which also contained the aforementioned regulation on the general hygiene of foodstuffs. It lays down specific rules for various sectors of production of food of animal origin. Although its overarching aim is to establish a uniform level of protection throughout the entire Single Market and to guarantee the safety of all food products of animal origin circulating in the EU, it does allow for Member States to have some discretion in extending or limiting the application of the requirements under national law. Limiting application of the Regulation is only acceptable when existing requirements are sufficient to achieve food hygiene objectives and when the supply of food of animal origin from one retail establishment to another establishment is a marginal, localized, and restricted (MLR) activity. Regulation 853/2004 prescribes the conditions for such supply: it should be only a small part of the establishment’s business, the establishments supplied should be situated in the supplier’s immediate vicinity, and the supply should concern only certain types of products or establishments. Specification of those conditions is left to the Member States through national legislation.

IN POLAND, AN ORDER of the Minister of Agriculture and Rural Development¹³ provided detailed conditions for classifying activity as marginal, local, and restricted, including the type and area of production, as well as the specification of the amount of products in various categories, and it specified minimal veterinary requirements for those activities. In terms of special limitation, the requirement for the distance between production and sale was even stricter than in the case of direct supply. It was required that the place of production and the place of product sales, either directly to consumers or through retailers selling directly to consumers, should be located within the same voivodeship or in the territory of neighboring poviats (basic administrative units) belonging to different voivodeships. This is largely dictated by the organization of the Veterinary Inspection whose participation in food safety control is essential in the case of foodstuffs of animal origin.

Just as in the case of direct supply, the ideas of LFS seem obvious here as well. There is direct contact between the producer and the consumer in the short food chain with confidence and trust between them as well as trust in traditional knowledge and limited



state intervention. This justifies an exception from the general rules.

It could largely be due to the similarities with the LFS set of convictions that these two mechanisms have received increased attention among social activists. They have perceived the regulatory exceptions as a window of opportunity to promote their objectives through the enabling legal instruments. They are working towards achieving the double aim of supporting the disadvantaged local farmers and supporting more sustainable agricultural development. With significant support from public authorities at both the national and regional level and additional external funding, the movement has evolved in a southern province of Poland into a concrete project that is discussed in the following section.

Small-scale local production in the Małopolska province

Recently developed by one of Poland's southern provinces, the "Local Małopolska Product" project builds directly on the legacy of Poland's EU accession negotiations and the exception mechanisms described in the previous section. Inventively over-interpreting the exceptions allows for a broader application to accommodate current local concerns. The project's main objective is to respond to the very specific situation of the local agriculture and food production in this region, which is unique even by Polish standards. Through accepting their limitations and amplifying their strengths, the project aims to help regional farmers and food producers make the most of the available regulatory options and promote sustainable progress in rural areas.

In 2012, the voivodeship of Małopolska conducted a study on the economic aspects of agriculture in the region.¹⁴ Results of that study, together with a strategic development plan, served as a basis for the project. In light of the study, Małopolska can be seen as a case in point of the agrarian map of Poland. In this region, 62% of the land is used for agriculture, which is close to the national average. What is exceptional, however, is the number and size of agricultural holdings. Of the 283,000 holdings, 99.99% are owned by individual farmers, 78.1% of the farms produce agricultural commodities, and 56.7% engage in mixed animal and plant production. This degree of fragmentation of the agricultural land translates directly to the size of holdings in Małopolska. The average size of a holding that qualifies for direct payments is 3.8 ha, while the average size of a farming unit in general is 2.3 ha. Moreover, Małopolska has the largest number of the smallest holdings (less than 1 ha) in Poland, which accounts for 42.8% of the holdings in the region. It is clear that this structure, along with the stagnating atmosphere in the region, creates unfavorable conditions for economic performance in agriculture. According to the experts from the Institute of Agricultural Economics and Food Management, agricultural holdings under 8 ESU¹⁵ should be considered uncompetitive in the EU internal market. In 2007, 86% of the holdings in Małopolska were below 2 ESU.

The “Local Małopolska Product” project aims to facilitate wider use of available regulatory options by regional producers through addressing specific features of the local production and by enhancing knowledge

and support of local consumers. The project is based on cooperation between public institutions, NGOs, farmers, and entrepreneurs to increase the supply and demand of local quality products. It is deeply grounded in the concept of traditional farming, which is characterized by small, low-capacity farms managed almost entirely by a family-based workforce. Such farming units are inherited within families suggesting the transfer of not only the land and the production capital, but also of tradition in terms of production and processing methods as well as the cultural aspects of rural work and lifestyle. From a practical perspective, the project is implemented by the Polish Environmental Partnership Foundation in cooperation with the local governance bodies with financial support by the Swiss-Polish Cooperation Program, which contributes the lion's share of the total budget of the project.

With an intention of promoting local entrepreneurship and working toward balanced and sustainable development of the underdeveloped rural areas of Malopolska, the project is pursuing a number of concrete objectives and activities. First, its goal is to develop a model for local Malopolska products. This will facilitate the development of supply and demand for agricultural goods from the least developed parts of the region through assistance with production organization and entrepreneurial schemes, as well as with strengthening of the brand of quality for local goods. Second, the project aims to create an economic education center that will implement and further develop the model as well as encourage the exchange of knowledge and experiences among regional partners. Third, the project has created a local brand center to develop a system of certification, marketing, and sales of locally produced foodstuffs with references to their association with regional nature, culture, and landscape. This quality certification is a basis for an integrated strategy for promotion, marketing, and organization of sales. It should also promote intersectoral cooperation within the region and encourage cooperative entrepreneurial initiatives. Finally, the project facilitates local producers' access to consumers by organizing awareness-raising campaigns, distribution chains, and local product fairs.

AN IMPORTANT PART of the project is devoted to influencing favorable development of the applicable regulatory framework. Considering the traditional local knowledge and sentiments of the local actors, the project initiates and participates in discussions at the regional and governmental level that aim to improve the regulations for local production. The idea is to make the available legal mechanisms, such as direct supply or marginal, local, and restricted pro-



Local production in the Małopolska area.

duction, easier for local entrepreneurs to implement so as to encourage their wider use. This is especially important for the smallest farmers, whose production capacity would not allow for economically viable participation in the market in accordance with the general rules. The project tries to improve the difficult regulatory conditions in two ways. It works to raise awareness and understanding of the existing rules and their application among local producers. Simultaneously, the project develops proposals for regulatory reforms that are more favorable to local food production and presents them to the policymakers.¹⁶ The proposals are supported with a solid impact assessment of the suggested measures and an explanation of how they respond to the concerns of local producers. The proposals also consider the concerns of the region as a whole, such as environmental benefits as well as economic gains (e.g., from development of tourism).

Sustainability through targeting consumption

Yet another approach to applying the concept of "local" in pursuing sustainability policy goals has developed in the context of regional public procurement of foodstuffs by a number of Swedish communes. Although referring to "local" as well, they build on a slightly different emphasis of the LFS values in promoting a shortened value chain. The idea is, on the one hand, to support local food production, especially organic food production, and to work toward a more balanced distribution of production between regions. On the other hand, the idea is to reduce environmental impact of transport by purchasing locally produced goods. There is also an educational element to it. By purchasing local and, by consequence, seasonally grown products for public schools and daycare centers, pupils will learn more about the natural food cycle and presence of various types of agricultural goods. Finally, there is an overarching goal of promoting more sustainable consumption patterns in local communities by encouraging more balanced and less meat-intensive consumption, at least in publicly provided establishments.

Local Swedish authorities have a high level of autonomy in terms of both policymaking as well as resource management. Every year, around 20% of Sweden's GDP is spent on public procurement. In 2004, out of 40 billion euros spent on public procurement countrywide, 25 billion euros was spent by the local authorities.¹⁷ As far as foodstuffs are concerned, public sector purchase of food and catering corresponds to approximately 4% of the total consumption of food in Sweden as measured by the market value.¹⁸ This constitutes a significant purchasing power, which could potentially have an impact on sustainable policy development. The ideas of Green Public Procurement have been practiced in Sweden and other Nordic countries since the end of the 1980s. A survey conducted in 2005 showed that 47% of all public purchase contracts in the Nordic countries included some environmental criteria, and in the case of Sweden the figure was as high as 60%.¹⁹ Swedish local authorities are, however, not totally free in the way they design their purchase policies and contracts because in all of their activities they are obliged to follow the existing regulatory obligation and limitations.

THE SWEDISH PUBLIC PROCUREMENT ACT (LOU, from the Swedish, *Lagen om Offentlig Upphandling*) provides the legal framework for public purchasing by Swedish authorities.²⁰ The LOU implements applicable EU law in the area, in particular Directive 2004/18 on public procurement procedures for works, goods, and services.²¹ It should also be consistent with the entirety of EU internal market regulation. Hence, all the aforementioned elements constitute a framework within which Swedish local authorities exercise their power of public purchase. And it is in relation to this framework that controversies have arisen with regard to the right of local authorities to include the requirement for food to be locally produced in their procurement specifications. In the light of the laws, such requirement can be interpreted as favoring Swedish producers vis-à-vis those from other Member States, thereby constituting a barrier to free trade in the internal

market. There is an ongoing debate among lawyers in Sweden as to what extent such a requirement can be justified.²² There are also pending remedy cases before Swedish courts.

The ongoing discussion seems to suggest that there is no agreed definition of "local food" or "locally produced (*närödlad*) food" accepted by all stakeholders in Sweden. Even some researchers suggest the existence of confusion or misunderstanding between Swedish actors about the interpretation of "local".²³ In the majority of cases, and in the dominating discourse, the understanding of "local" seems to be of purely geographical character. This initially appears to correspond to the shortened value chain ideas of the LFS movement, but after careful consideration, there appear to be considerable differences between the implications of proximity in the two contexts. Although the Swedish interpretation recognizes the environmental benefits of proximity as a result of shorter geographical distance between the producer and the consumer and, consequently, shorter transport of products, it does not carry the element of a closer relationship between the producer and the consumer, which implies the element of trust and knowledge sharing. This element seems to be lost due to the presence of the public authorities that undertake the procurement and subsequent distribution of the products to the public catering establishments such as hospitals and schools. It appears that agreeing on a certain definition of "local" would be particularly important in the Swedish case, not merely because it is in fact used by the state institutions in the process of spending public resources. Not only would it contribute to better understanding and support for the initiative, but it would also increase the transparency of the application of existing rules and procedures by the local authorities. Moreover, it might be important for those local authorities to motivate their preference for locally produced food and explain which of its particular characteristics they wish to promote with their public purchase choices.²⁴ Possible motivations could include the willingness to stimulate local business development,

the move toward local self-sufficiency, environmental concerns about transport and carbon footprint, and the health benefits of fresh seasonal food. Such additional qualification, on top of the special proximity argument, would significantly strengthen the position of local authorities in relation to the law.

Conclusions: when is "local" legal?

This final section concentrates on the position of law and regulation in the process of localization or re-localization of food systems. It highlights the role of law as enabling or, alternatively, as blocking regional sustainability policies based on the references to "local" that were characterized above.

In Sweden, in contrast to the Polish case, the application of "local" for regional needs turned out not only to be controversial, but was even considered as something that breached the existing legislation at the national and EU level. It is interesting, therefore, to speculate as to why the mechanisms applied by Poland and Sweden have been assessed differently and have been met with different degrees of acceptance. From the regulatory perspective, there are a number of interesting differences between the Polish and the Swedish strategies that might be relevant to this observed outcome.

THE FIRST IMPORTANT difference is that the Polish initiative seeks to extend the national application of an existing exemption legalized by the EU system. In contrast, the Swedish authorities are trying to create and justify an exemption from the general rule of the free movement of goods in the internal market. There is a fundamental difference between navigating within existing margins of diversity and invoking new ones. Moreover, the burden of proof in the two cases is completely different.

The second important difference is in the emphasis on the private, as opposed to the public, sphere of activity. As the analyzed initiatives show, Poland's scenarios for agricultural sustainability are built largely on private consumption. Sweden, on the contrary, relies on public purchase in its strategic development. This does not mean that private consumption is underrated, and there are many campaigns and projects directed to private consumers. Those, however, are mostly developed and managed by producers' organizations or special interest groups.²⁵ The focus of the public activity remains on public procurement, which is supposed to support regional sustainable development plans with targeted strategic public purchases that take environmental and social concerns into consideration.²⁶ This, in consequence, translates to a difference in focus, between private resources in the Polish case and public spending in the Swedish one, where the latter is typically an object of more stringent control and requirements.

The third difference between the Swedish and Polish strategies, closely related to the previous one, is the focus on production versus the focus on consumption. Supporting local producers by facilitating their upgrades and strengthening their presence on the local market can be claimed to leave less room for suspicion than state support through strategic public



Farmers' Market in Stockholm.

purchase. There is arguably less room for questions of possible discriminatory effect and protectionism when localization relates to the production process, which is inevitably linked to the location in question, rather than to the process of purchasing local products as an administratively imposed condition for a supply contract.

Fourthly, through this perspective, Swedish mechanisms can be seen as a process of top-down localization where regional authorities engage in stimulating the development of regional local systems through strategic public procurement design.²⁷ The Polish instrument, on the other hand, is attempting to promote local entrepreneurship through the existing localized network by strengthening the pre-established linkages and supporting their further development. This is not merely a matter of policy choice but also of an existing agro-food situation of the locality in question, which is fundamentally different in the two places. Farms in Sweden are getting fewer, bigger, and regionally more concentrated. Today there are some 71,000 farms, while in 1970 there were more than twice as many. Still, production remains the same. The average size of a Swedish farm today is some 37 ha, which is double the size of an average farming unit 40 years ago.²⁸ In this context, differentiated policy approaches are required and justifiable. If the policies are more suited to the local circumstances, they have a better chance of becoming more efficient in achieving the sustainability objective.

In conclusion, a more general observation about the role of law in the localization of food systems can be made. In the contemporary globalized economy, local political decisions about how to achieve regional sustainability goals are increasingly dependent on the transnational regulatory framework. As the cases presented in this article illustrate, the ultimate standard against which the sustainability concerns of two Baltic region states are assessed are the laws establishing the Single Market within the EU. ❌

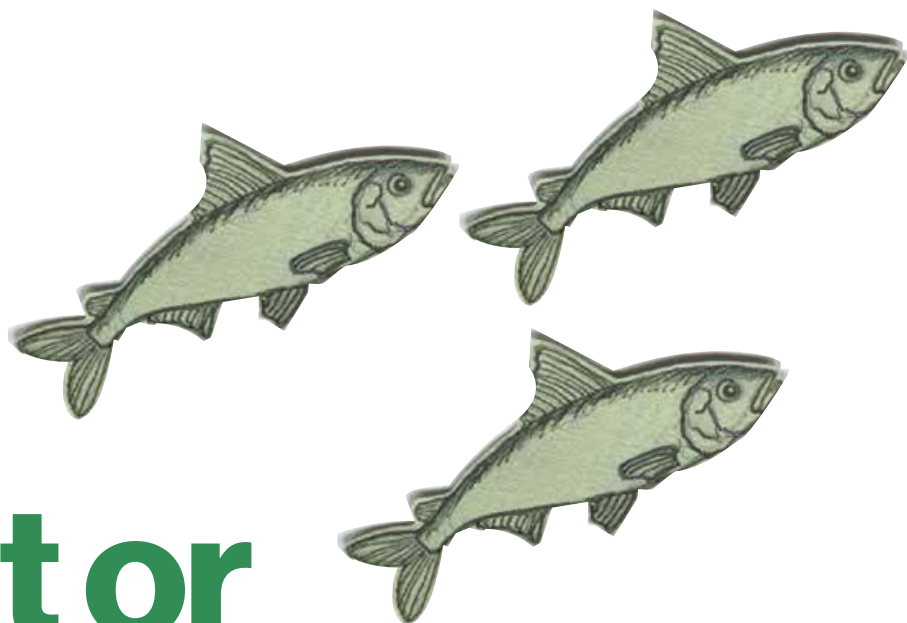


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Conflict or convergence?

Products of origin. An analysis of the Swedish case of Baltic Sea fish

by **Madeleine Bonow**

In response to the contemporary globalization of the economy, food markets are shifting toward differentiation of services and products based on the unique qualities and attributes of the products. A paradigm called the “quality turn” corresponds to the increasing variety of food services. “Alternative foods”, including organic products or products qualified by their origin, and new methods of marketing these foods (farmer’s markets, local contracts, etc.) are developing through the mainstreaming of innovation.¹

Protected designation of origin (PDO) is a certification scheme that certifies products by their origin, and is one of several important tools to strengthen the competitiveness of rural areas, especially for small-scale food processing in rural and less-developed areas in Europe.² A PDO provides groups of producers with protection against unfair competition for products whose unique sensory characteristics essentially depend on the local geographic and cultural conditions as well as the local know-how of the production site. A PDO certification informs consumers that the product quality and its value depend on the geographic origin of the product.³ Despite the potential value of PDOs for producers, their use is unevenly distributed throughout the EU. The organization of the quality

certification systems and corresponding legal provisions vary between countries. France, Italy, and Spain are models for the development of the PDO scheme and have more than 800 PDO-certified products.

However, countries such as Sweden, Finland, and Denmark have a much smaller number of products that are certified. In Sweden, several products have applied for a PDO, but only one, Kalix Ljörom, has been certified under the scheme. The reason for this failure is mainly that Sweden’s current customs do not correspond to the rules and traditions used to create the PDO scheme. To increase the likelihood of successfully obtaining PDOs, Sweden should work to reinvent local knowledge and local food and to recover its traditional food culture.⁴

Institutional theory

Institutional theory brings together economists, sociologists, and historians whose common interest is the impact of institutions on the behavior of, and coordination among, economic actors.⁵ The interdisciplinary perspectives from sociology,⁶ political science,⁷ and business management⁸ bring further insight to the

economic perspectives.⁹ North defines institutions as “formal rules or informal constraints and their modes of implementation that guide and regulate the behavior of economic actors”.¹⁰ “Formal” institutions are explicit and take the form of constitutions, laws, regulations, and codes, and “informal” institutions are often implicit and comprise social norms, conventions, personal habits, and organizational routines.¹¹ Institutions govern the “rules of the game”,¹² and they generate restrictions as well as create the tactical choices available to firms at a number of levels.¹³ These institutions set the fundamental political, legal, and social rules that establish the basis for production, exchange, and distribution.¹⁴

Terroirs and the institution of PDO

The articulation of the common agricultural policy (CAP) and the development of the common market are components in a massive project of institutional assimilation in which a country’s historical experiences and institutional setting is subordinated to common European institutions. A particular institutional concept in the small-scale food industry is that of *terroir*. This concept is important to the industry because

the region of origin of a product is a specific asset, and its development has been the cornerstone of the industry's strategy on a national level. The terroir, traditionally a homogeneous geographical area, can be defined according to a variety of concrete, tangible factors such as soil, geology, geomorphology, hydrology, climatology, and sunshine.¹⁵ However, a terroir is also a homogeneous territory endowed with a very strong identity that is characterized by a set of natural, cultural, historical, and social resources enmeshed in both the place and history of the area of production.¹⁶ Moreover, terroirs are structures of individual and collective skills explicitly or tacitly transferred from generation to generation that build an enduring collective trust and facilitate the exchange of geographical resources. Economic players and their interactions build terroirs. Thus, a terroir is a territory, and as a territory it can also be analyzed as a "situated institutional setting". It is no longer an unassuming bounded set of resources, but a social and historical construction of a set of institutions embedded within a given geographical area that gives it its identity. It is a system in which firms incorporate a sense of land and place into their businesses as a means of connecting their products with a community's uniqueness.¹⁷ Building on this idea, "terroir strategy" is a community-level perspective that focuses on the firm's ability to capture and build capabilities around community resources. This in turn enables the firm to deliver a product that will be competitive in multiple types of markets and that can be sold at a premium price. In a terroir, actors are connected by geographical, organizational, and institutional proximity.

In 1993, the EU passed legislation that provided for a system for the protection of food names based on geography or a traditional recipe. The product is awarded one of three marks: PDO, protected geographical indication (PGI), or traditional specialty guaranteed (TSG). Under this system, a named food or drink registered at a European level is given legal protection against imitation throughout the EU.¹⁸

As a formal institution, PDO is the cornerstone of the system. France and Italy have a long history of using the scheme, which was developed with the French scheme *appellation d'origine contrôlée* as its model; therefore, PDO is known by both producers and consumers in these regions. The quality and characteristics of PDO-certified products are exclusively or essentially due to the geographical environment, including natural and human factors. PDO is a label and a set of formal rules, standards, and regulations whose purpose is to protect a locally embedded product from competition.¹⁹ The combination of geographical, organizational, and institutional proximity drives the identification between the place, the company, and the product. This forms a high barrier to entry that gives insiders a monopoly on the niches they create, generating a "rent" situation because the product can be differentiated, marketed, and sold at a high price. Producers who register their products for protection benefit from the raised awareness of their product throughout Europe, which can give them competitive advantages over large businesses and increase awareness of the importance of regional and specialty foods.²⁰ Products covered by geographical quality designations have associated values of specificity or

"typicity" and excellence. Besides being a defining feature of geographical designations, the impact of the PDO is both "horizontal", because it plays the role of a territorial marker and a guarantee of the uniqueness of the product, and "vertical", because certification constraints reinforce the presumption of quality.

Institutional approach to a comparative analysis

Institutions exist in a distinct national configuration.²¹ The implementation of a PDO in Sweden reflects the implementation of a new formal and informal institutional establishment (laws, traditions, and knowledge). This paper will apply an institutional approach to a comparative analysis of two products: one that has received a PDO, Kalix Ljörom, and one that is applying for a PDO, surströmming. Because institutions exist in distinct national configurations, it is interesting to see these institutions interact to form national constellations with their own logic and non-random types or patterns.²²

The aim of this work is to identify the conflict or convergence of the institutions in both of the cases and the impact this has on the PDO application process and outcome. The study was completed by conducting interviews and participatory observations and text analysis.

The cases under comparison are natural resource-based, embedded in old traditions, and have local tacit knowledge as the primary cognitive basis for their conventions. They sustain small communities, and Kalix Ljörom contributes to the wealth of a larger region. Both cases involve the transformation of a scarce, but harvested, natural resource (fish) according to a specific set of conventions. Kalix Ljörom has moved into the world of alternative niche markets and new conventions, but surströmming is still locked into the old conventions. These case studies explore the changing dynamics of the institutional landscape during the application process for a PDO.

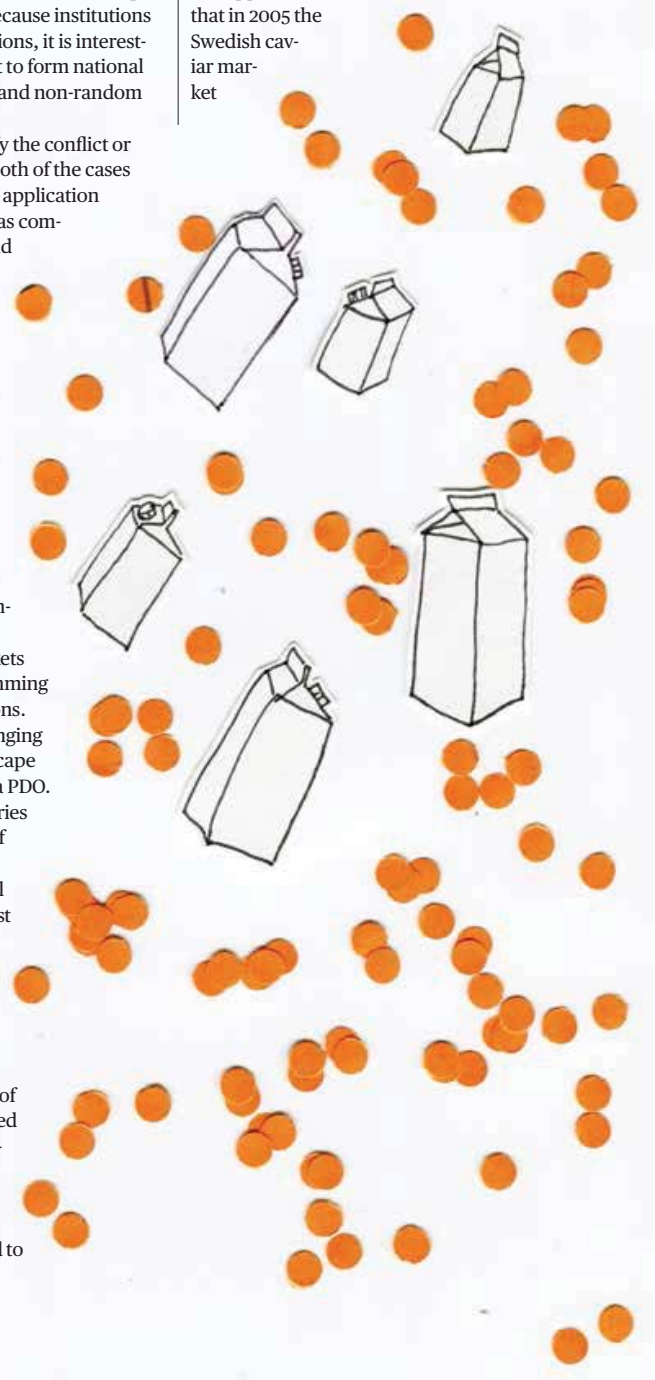
Sweden differs from other countries like France or Italy in the tradition of using terroir. The idea of using a terroir-based certification is unusual in Sweden because terroir, in its most comprehensive geographical and cultural meaning, is not a familiar concept in Sweden. There are many reasons why Swedes do not have any relationship to terroir. First, the structure of the agro-food sector and its near total eradication of traditional agro-food systems resulted from the view that food was a necessity for day-to-day survival. This attitude led to a reduction in the importance of cultural values and sensory quality that has contributed to

a less vibrant regional food culture and has affected the buying habits of the population.²³ In addition, wine has never been produced in Sweden, and terroir is considered a basic concept in wine production. Furthermore, the geographical distance between Sweden and countries where terroir is known by both producers and consumers is quite significant.²⁴

The application process for Kalix Ljörom and surströmming

Sweden's first PDO application was submitted to the National Food Agency (NFA) in 2006 for the caviar Kalix Ljörom with the financial support of the municipality of Kalix, the Swedish Board of Fisheries, and the fishermen who produced the caviar. The reason for this application was

that in 2005 the Swedish caviar market



had been penetrated by cheaper alternatives from other nations and by roe from other parts of Sweden that had renamed their products as Kalix Ljörom. This new competition forced all stakeholders to join forces to find a solution to maintain the uniqueness of their product.²⁵

The Kalix Ljörom group encountered many problems with the application process. The first was that the NFA, which is in charge of PDO applications, told them not to apply. Because the PDO application requires a massive amount of information, no previous application had ever been completed in Sweden. However the one responsible for the PDO application of "Kalix Ljörom", Tryggve Bergman, contacted another person at the agency who offered some support and guidance. The application was first rejected, but after a visit to Brussels, Bergman learned what mistakes were made and received information about how to complete all of the requirements of the application.²⁶

ANOTHER PROBLEM with the application was defining the specific geographical area where the fish that produce Kalix Ljörom are located.²⁷ A comparative isotope analysis of different caviar harvests in combination with the breeding grounds for the vendace (*Coregonus albula*, the freshwater fish whose roe is the source of Kalix Ljörom) was performed. The analysis showed that the distinct features of Kalix Ljörom result from the brackish water (low salt level) near the mouths of the four large freshwater rivers in the northwestern area of the Gulf of Bothnia as well as the unique characteristics of the vendace.²⁸

The application was finally accepted in the fall of 2010.²⁹ Because the application was approved, the Swedish government has provided financial support to reinforce the control and implementation of the EU quality scheme in Sweden, and the NFA has developed the first training courses about the EU quality scheme.



³⁰ The NFA also established a monitoring program to detect fraudulent use of PDO, PGI, and TSG.

The application process for surströmming started in 2012. The NFA invited the Surströmmings Akademien (The Surströmming Academy) to apply for a PDO for surströmming because it is a unique product from the Norrland coast. The producers had also started to suspect Chinese interest in making this product in China.³¹

In this case, the main obstacle in the start-up phase was obtaining financial support to fund the application. Unlike the application from Kalix Ljörom, the Surströmming Academy did not have the assistance from the municipality in terms of money or man-hours. The Surströmming Academy applied for funding from the NFA to finance the application process and received 50% of the cost of developing the application for the first year. This was far from enough. Obviously, the NFA was now more willing to help, and their knowledge had increased substantially since the Kalix Ljörom application. However, the infrastructure for supporting the application process was still lacking.

THE AUTHORITIES were more aware of the benefits of PDO certification this time, but the fishermen and small firms producing the product were not. The first task was to ask the producers and fishermen to participate in the application. An initial meeting was held in the autumn of 2012 to convince them of the benefits of this scheme and to persuade them to organize themselves in an association, which is necessary to be able to seek the PDO. None of the producers at that meeting knew anything about the PDO scheme, and there was little willingness to participate and pay money without knowing whether they would gain anything.

Defining the terroir, or the production area, was another major obstacle. The production of surströmming has traditionally taken place near Höga Kusten [The High Coast], where the herring have been caught commercially since the 1600s. This area would be the obvious choice, but today one of the largest producers in this business is located outside of this area and would be excluded from this PDO. This was regarded as a problem because the application process needed their support and money to proceed. No one at that meeting understood why the producers could not be included. These problems could be solved with more information and lobbying activities by the Surströmming Academy. After the seminar, the board of the Surströmming Academy talked to all of the firms producing fermented herring, and the firms agreed to co-finance the application if the Surströmming Academy could obtain sponsorship from the municipalities that have processing firms to help share the cost.³²

The largest obstacle was harder to tackle. The fish used to make surströmming have high levels of dioxins and polychlorinated biphenyls (PCBs). Wild-caught fatty fish from the Baltic region,

such as herring and salmon, often contain concentrations exceeding the EU limits for dioxin and dioxin-like PCBs. This means that the herring caught in the Gulf of Bothnia to make surströmming are considered toxic and are banned for export. Since 2002, Sweden has had a temporary exemption from the EU dioxin limit, which allows Sweden to sell fish exceeding the limits in the Swedish market if the consumers are informed of its dangers. Sweden received a permanent exemption in 2012.³³

CAN A PRODUCT with toxic content apply for a PDO?

The firms wanted to know this before committing to any funding of the project. The members of the Surströmming Academy have tried to determine the answer to that question but have not yet succeeded. They have asked the NFA and have received different responses. They contacted many officials in the Ministry for Rural Affairs with similar results. The Surströmming Academy's view was that if the NFA urged them to apply for a PDO, they would not reject the application because of these toxins when it was submitted.

At a meeting between the Swedish Ministry of Rural Affairs, the Surströmming Academy, and the NFA in December of 2012, the question was raised of how Sweden would handle the PDO application for surströmming given the exemption Sweden has to consume fish caught in the Baltic Sea. The Swedish government replied that they could not accept an application for a PDO that does not follow other European legislation. In other words, the fermented herring should be allowed for consumption in the EU. This would not be possible with the surströmming because it is banned from the European market.³⁴ However, in a meeting on January 16, 2013, the Ministry of Rural Affairs stated that there are no legal grounds to prevent an application for a PDO for surströmming if the requirements of the Swedish dioxin exemption are followed as well as the requirements of an application for a PDO. They pointed out, however, that it is not possible to get advance notice from the European Commission on whether or not they will approve an application for a PDO of surströmming. Another issue mentioned at this meeting was that in light of the Swedish media's discussion about the dioxin exception, an application for a PDO for fermented herring might result in negative publicity for the product, not the positive publicity that the trade needed.³⁵

In the beginning of 2013, the National Board of Agriculture (NBA) rejected the Surströmming Academy's application for further funding of the PDO application process. This was a setback to the project because it had no other means to do the laboratory testing and other research required to be able to continue the submission process, and the project is currently on hold.³⁶ From the beginning, all of the actors and institutions involved have been in conflict and no convergence has yet been reached in this process.

The implementation of the PDO for Kalix Ljörom

The implementation of the PDO for Kalix Ljörom caused a number of new problems at local and national levels. First, it greatly increased the bureaucracy concerning the fishing, processing, control, and selling of the product, which caused some frustration.

At the local level, this led to substantial investments in processing facilities that created some controversy between the fishermen and the authorities. The increased control of the production exposed a lack of established standardized practice.³⁷ The second problem was to stop disloyal competition from marketing false products because Sweden lacked an organization to enforce the rules of the PDO.³⁸ Third, Swedish consumers do not know the meaning of PDO, and the NFA, which is responsible for informing the public about the quality scheme, has not invested in informing the public. The lack of knowledge in general is a clear impediment to the institutional harmonization within the EU. All of these problems, from an institutional point of view, indicate that the institutional convergence process expected from the CAP has been difficult to achieve.

The first immediate positive effect of the PDO was that wholesale prices of Kalix Ljörom doubled from SEK 450 to SEK 900 per kilogram.³⁹ The fishermen receive around SEK 700–750/kg.⁴⁰ The second positive effect was that fishermen started to monitor the development of the stock. A coastal self-management system was established in 2010 and includes a yearly inventory of the stock before the fishing season can begin.⁴¹ The third effect was positive publicity for the municipalities where the fishing occurs. The municipalities promote the exotic features of the archipelago where the whitefish lives, and boat tourism in the archipelago is expected to increase.⁴²

Institutional constraints, conflicts, and convergences

The purpose of this article was to analyze and highlight some of the main problems and opportunities faced during the application process and the implementation of the Kalix Ljörom PDO and the PDO application process of surströmming. The study also touched upon the notion of the PDO and its institutionalized expression in the terroir at the local level in the two cases. As expressed in this article, this process has proven to be quite complicated.

Kalix Ljörom has successfully followed the path of the PDO system to achieve self-sustained industrial and territorial development. This has involved implementing PDO guidelines for meeting quality standards and increasing value along the production chain. In addition, and perhaps more importantly, networked cooperation between local production systems and regional regulatory and professional bodies diffuses cutting-edge technical and marketing knowledge down the production chain. The ultimate objective is to upgrade the regional system to produce premium caviar for expanding niche markets. The present case study suggests that its implementation represents some institutional innovation that involves many actors and numerous regional levels. From an institutional perspective, the weaknesses of the PDO as an institution are a reflection of the PDO system's lack of institutional uniformity in Sweden.

The implementation of PDOs requires a high degree of institutional proximity among local actors. In the case of surströmming, a real convergence of views, values, and common rules of action is missing due to the lack of institutional embeddedness among organi-

zations and individual actors. The innovation is lost in the practical concerns and conventions of the NFA and other actors. The Høga Kusten region is undoubtedly bounded from a geographic perspective; however, the institutional proximity is still limited. This is mainly because the knowledge on defining the production terroir is lacking, and individual producers do not know how to use the terroir as a resource and how it could build market assets.

In both cases, Kalix Ljörom and surströmming, the main institutional constraint was the lack of infrastructure for the support of the PDO during the application process and the lack of knowledge and the initial reluctance of the NFA and NBA to proceed with the applications. This conflict between the NFA and other authorities was demonstrated by its inflexibility in adopting the new ideas of the PDO and the innovations that, in this case, would improve the product. The lack of understanding of how the regulations worked and the lack of institutional embeddedness among organizations and individual actors formed the basis of the conflict in the surströmming case.

The national authorities are at present too passive, and many producers do not know about the PDO scheme or how to complete a PDO application. This absence of knowledge is a threat to institutional convergence in Europe. Furthermore, the authorities that have the power to grant funding for new applications in Sweden counteract the European quality schemes. As in the surströmming case, this endangers the support for future PDO applications. The cases also illustrate that cooperation is needed to build organizational and institutional proximity and that education about the concept of terroir is essential, given that it is largely unknown in Sweden.

For Kalix Ljörom, the insufficient resources and

knowledge of the NFA about how to secure the PDO has allowed food fraud to flourish, and this jeopardizes the economic base for the fishermen and the reputation of the product.

THE MAIN ECONOMIC BENEFITS of possessing this PDO have yet to be realized. Kalix Ljörom is sold as a gourmet item in specialty stores, and the increased income levels for the fishermen might provide the right incentive to secure the compliance of the coastal management program and secure the future survival of the whitefish. Surströmming might not ever sell as a gourmet item, especially outside of Sweden. However, in this case the most important reason to apply for a PDO is to protect the trade and support the local fishermen and municipalities. The municipalities in the fishing areas and especially the rural population of the archipelago might find future income opportunities through tourism and even festivals. But this has yet to materialize. ✕

Note. Kalix Ljörom (vendace roe from Kalix) and surströmming (canned fermented herring, *Clupea harengus*; literally: sour herring).



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Checking the year's batch of surströmming at Ersson Brothers in Skärva, 1946.

PHOTO: LANSMUSEET GÄVLEBORG

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by **Håkan Tunón,
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Views of landscape

Reflections on the governance of Scandinavian transhumance

Old dairy cattle breeds at Rønningsvollen summer farm in Budalen, 2009, represent both biological and cultural heritage and a potential for the production of local food specialities.

Landscape is an extremely complex term and has multiple meanings.¹ Sporrøng² presents a holistic approach when he states that “landscape is the entirety of the physical and cultural components, a combination of cultural preferences and potentials and physical conditions developed in a specific society”. When managing, governing, or studying the landscape, however, governmental agencies and researchers often concentrate on one or a few aspects, such as forestry or cultural heritage, and fail to see the landscape as a whole. This approach conflicts with traditional Scandinavian farming based on animal husbandry and the extensive use of outlying land, and creates several problems for Swedish and Norwegian “traditional farmers” still practicing small-scale transhumance. Some governmental agencies hope that this situation will change with the implementation of the European Landscape Convention.

Perspectives on the landscape

Different perspectives on landscapes arise from people’s different identities, backgrounds, and experiences. The perception of a particular environment is deeply rooted in the traditions of a society and influenced by the professions, education, and experiences of its people.³ Past and present social and cultural environments also guide how landscapes are interpreted. Studies of landscape preferences in Norway show that agriculturally modified landscapes with “old-fashioned character” (e.g., small-scale, non-industrial) are preferred by the general public.⁴

The various authorities and agencies of Sweden and Norway have different perspectives on the landscape and on-going farming activities. The different agencies, such as the Board of Agriculture, the Board of Forestry, the Environmental Protection Agency, the National Heritage Board, and the National Food Agency in Sweden, and the Norwegian Environment

Agency and Directorate for Cultural Heritage in Norway, have specific interests and regulations that affect the local farmer.⁵ This is sometimes called compartmentalization,⁶ and it influences the way authorities identify and appreciate values in the landscape, as well as how they propose different actions vis-à-vis the governance of the landscape as a whole. Even within a specific agency, different and sometimes contradicting perspectives prevail. In a single landscape, very different values or interests can be favored such as forest, fodder or food production, hunting opportunities, or biological, cultural, or recreational values. Even within the area of nature conservation, there are possible contradictions between the governance of the wild biodiversity of “virgin forests” and the biodiversity of anthropogenic biotopes. This is evident in the management of several Norwegian forest reserves,⁷ as well as in management plans for new nature reserves in Sweden that specify “free develop-



The summer farm is a place where history and present meet. Svedbovallen, Hälsingland, Sweden, July 2009, and Litj-Tyldvollen, Forradalen, Sør-Trøndelag County, Norway, August 2009.

ment” of the protected ecosystem, although much of the biodiversity has developed in a grazed, semi-open wooded landscape. In the end, however, there is only one landscape.

Compartmentalization also exists within academia and results in different perspectives on landscapes. There is, for example, a vast difference in how a biologist, an agronomist, and a historian will perceive a certain landscape, and among biologists, as well as historians, perceptions might differ based on which aspect of biodiversity or which historical time period they study. In a single landscape, one biologist might see shady forest habitats as a potential for biodiversity while another might predict good biodiversity with an open, semi-natural grassland habitat. The varying perceptions of landscape also influence how we view the effects of human activities in the landscape, such as animal husbandry. There is a continuous debate on whether present grazing activities are compatible with the historical land use that shaped the biodiversity and landscape structures valued today (i.e., the biological cultural heritage).

To the farmer, this situation of compartmentalization can become very confusing and unsatisfying. For instance, a civil servant or scientist giving management recommendations is most often considering only one or a few particular details. The administration and bureaucracy might divide the daily farming tasks between agencies, even though all of the activities are a part of the livelihood of the farmer and contribute to upholding the biological and cultural values of the summer farming landscape. Various requests from different agencies, and sometimes from departments within a single agency, often create conflicting situations and consequently threaten the continuation of traditional farming practices. This occurs both in Sweden and in Norway, but the problem is perhaps more prominent in Sweden due to the incompatibility between the EU and national and traditional views on land use. The urge for historical authenticity in these contexts might interfere with, for instance, a farmer's

ability to get environmental subsidies or to abide by regulations for animal welfare.

The farmers have, by necessity, a more holistic approach to the landscape. They have to relate to their farming as one entity, and all activities aim to create a viable situation for the farmer and the animals all year round. Farmers might refer to themselves as part of the entity, and often claim that they belong to the land rather than the other way around.

Nature conservation and cultural heritage conservation are no longer treated as unrelated elite activities, but are moving in the direction a more integrated view of nature and culture in the landscape.⁸ An example of this is the selection of twenty-two agricultural areas containing both natural and cultural heritage by the Norwegian Agricultural Authority, the Norwegian Environment Agency, and the Directorate for Cultural Heritage with the intention to maintain them through good management and through cooperation among farmers, municipalities, and county authorities. Some of these areas were summer farming landscapes.⁹ This seems, so far, to be a successful holistic model for the conservation of valuable cultural landscapes.¹⁰

Forest and alpine ecosystems in Scandinavia have traditionally provided for grazing and winter fodder production.¹¹ The importance of these ecosystems has varied with time and place, but in Norway, as well as in most of Sweden, traditional agricultural practices have depended on both outlying land and infields.¹² For instance, a study of old forests in the northeastern part of central Norway (near the Swedish border) shows that about 70% of the winter fodder in this region was harvested from outlying land in the traditional farming system.¹³ The local term “hay forest” (*høyskogja*)¹⁴ underlines the importance of the forest for winter fodder production. Consequently, the summer farms, and the landscapes of which they are a part, are traditional areas for agricultural production.¹⁵ In Norway this is still seen as important, but in Sweden the stated goal of subsidization is to preserve and create cultural and nature values at the summer farms.

Today, outfield grazing is rare in Sweden and decreasing in Norway. This endangered practice requires immediate political and economic action to reverse the negative trend and preserve the biological, sociological, and historical values connected to active outfield farming practices. Based on these reflections, we can begin to analyze the different perspectives on the outlying areas. Should we identify these areas as wilderness or as anthropogenically influenced? Are they part of an agricultural landscape, a forested area, or a mountainous wilderness? Answering these questions partly requires acknowledging the influence previous generations of farmers have had in shaping our present day biodiversity and landscape structures.¹⁶

Development of Scandinavian transhumance

Animal husbandry has been a part of the farming systems in Scandinavia since their emergence five or six thousand years ago.¹⁷ There is evidence that agricultural practices arrived in Scandinavia with immigration that brought well-developed systems of dairy production and cereal production.¹⁸ The practice of grazing cattle in the forest is presumed to date back to at least the Iron Age,¹⁹ and probably to the beginning of agriculture in the New Stone Age. It is likely that the landscape, especially close to the settlements, already at that time had a grazed character.²⁰ Traces of intense grazing in the mountains in western Norway date from 500 BC, but archaeological and vegetation analyses of historical data show that extensive use of the mountainous areas probably originated even earlier. Although the utilization of outlying land has varied with the population density, extensive livestock grazing has shaped the Scandinavian landscapes over several millennia.²¹

During pre-industrial times, the Fennoscandian boreal forests and a large part of the mountainous areas were influenced by several types of human activities. The forest was an essential part of the agricultural



PHOTOS: HÅKAN TJUNO, CBM AND BOLETTE BELLE, BIOFORSK

In the absence of grazing, many species, like the Black Vanilla Orchid, *Nigritella nigra*, will gradually disappear, as will the meadows and cultural buildings. Rossåsvallen, Hälsingland, Sweden, August 1998.

practice that provided different types of resources and opportunities including fodder such as hay, leaf, and lichen; wood for construction, fuel, fences, and handicraft; hunting possibilities; slash and burn cultivation; and, most importantly, grazing resources. In both Norway and Sweden, grazing and fodder harvesting have shaped most landscapes and kept most forests semi-open, but today management authorities and biologists often overlook these anthropogenic dimensions of the forest landscape and its biodiversity²². This often results in loss of nature types, biodiversity, traditional ecological knowledge, and valuable fodder.

Today, the remaining summer farms are of interest for their biological value, cultural value, and tourism. They are still important grazing areas for livestock and the production of local food products, especially in the mountain regions of Norway and in northern and central Sweden.²³

The aim of this study is to draw attention to the conceptual gaps concerning perspectives of landscapes between academia and government officials and the farmers using the summer farming landscape for food production (small-scale animal husbandry) in Sweden and Norway. We will discuss the discrepancies in the views on how this landscape should be governed in order to maintain and enhance its value and potential.

THE SCANDINAVIAN PENINSULA is situated relatively far to the north, between N 55°35' and N 62°00', similar to southern Greenland. Due to the warm North Atlantic Drift, a branch of the Gulf Stream, the climate is considerably milder than in other parts of the world at similar latitudes. Most of Norway and the central and northern parts of Sweden belong to the coniferous and boreal deciduous forest. In large parts of these areas the conditions are seldom favorable for the cultivation of cereals and other important food crops. Consequently, the traditional lifestyle has, to a large extent, been a meat- and milk-based livelihood focusing mainly on animal husbandry with some trapping and fishing. In Scandinavia, two types of traditional

transhumance still exist, reindeer husbandry and the use of summer farms (*fåbodbruk* or *säterbruk* in Swedish, *seterbruk* or *stølsbruk* in Norwegian, also called summer shielings). Reindeer husbandry is a form of transhumance that is connected to the Sami people, Europe's only indigenous people. In this article, we will concentrate on the use of summer farms. This is a traditional pastoral agricultural production form currently affected by several governmental agencies, policies, and interests. The reflections in this study encompass the entire area of Swedish and Norwegian summer pastoralism, but in particular the counties of Dalarna, Jämtland, and Gävleborg in Sweden, and Sør- and Nord-Trøndelag in Norway. Some of the reflections and conclusions in this article might also be relevant in reindeer herding contexts.

Norway is a mountainous land with restricted possibilities for large-scale agriculture. Mountains constitute about 45% of the total land area of Norway, and topography, local climate, and other factors strongly restrict the cultivable area and the possibilities for large-scale agriculture.²⁴ However, the outlying land areas are extensive and offer many different possibilities for grazing and fodder harvesting. From the Iron Age, when permanent infields were established, until the twentieth century, Norwegian farming has utilized both outlying land and infield pastures.²⁵ The animals grazed primarily on outlying land and, in many parts of the country, most of the winter fodder was also harvested there.²⁶ The subalpine areas were especially important for the traditional farming systems, and summer farms made it possible to utilize remote grazing resources. In the middle of the nineteenth century, there were 70,000–100,000 active summer farms in Norway and in 1939 there were 26,400. Today, about 1,100 of the farms are still in use.²⁷

In contrast, southern Sweden has relatively large areas highly suitable for increased intensification of agriculture. During the modernization and rationalization of agriculture in Sweden that took place after the Second World War, the central and northern regions

of Sweden were considered unsuitable for modern farming. Thus, farming in those areas was more or less abandoned with a few exceptions. The number of active summer farms decreased from several thousand in the late nineteenth century²⁸ to approximately 200 in 2012.

Four main sources of empirical information were used in this study: experiences from previous research projects, qualitative interviews, field studies at summer farms, and written documentation.

Experiences from previous research projects include studies of landscape values, grazing impacts on biodiversity, habitat preferences of different breeds of animal, and connections between cultural values and biodiversity.²⁹ The interviews were “semi-structured life world interviews” as described by Kvale.³⁰ Interviews with key informants and focus group discussions, as well as field studies, were conducted 2013. The written sources surveyed and analyzed in the study consisted of articles in scientific publications, conference proceedings, monographs, policy documents of government agencies, and statistics obtained from the Viltskadecenter at the Swedish University of Agricultural Sciences.

FROM A NORWEGIAN FARMER'S perspective, the outlying landscape and the summer farming landscape is still important for grazing and food production, and thus for the Norwegian farm economy.³¹ In 2011, 2.2 million livestock animals grazed outlying pastures.³² Grazing is seen as important for the maintenance of common goods and as positive for animal welfare, and the Norwegian government promotes grazing of outlying land and active summer farming through subsidies. In 2011, 85% of all ewes, lambs, and goats and about one in four cattle grazed on Norwegian outlying land for more than five weeks. Utilizing fodder resources from outfields is still important for the Norwegian farmers and economy.³³ However, the fodder potential in Norwegian outfields is estimated to have a capacity for as much as twice the present number of livestock

animals grazing there.³⁴ In Sweden, the rationalization process of agriculture has progressed much more than in Norway, and the number of livestock animals grazing the outlying land is consequently much smaller.

Studies from Norway also show that summer dairy farming in species-rich semi-natural pastures in mountain regions improves the nutritional quality of milk and milk products³⁵. This creates a win-win situation; mountain pastures improve the food quality and, in return, cattle grazing contributes to the maintenance of both biodiversity and open landscapes.

In high-cost countries such as Sweden and Norway, it is often difficult to sustain a reasonable income from small-scale husbandry that includes utilization of out-field fodder resources. Therefore, many farmers improve their livelihood by developing tourism and local value-added food products. Non-urban environments are among the preferred destinations for post-modern tourists, and farms with small-scale food production represent a lifestyle and a set of values that have been shown to be important elements for tourists seeking natural and cultural experiences.³⁶ Bertella³⁷ concluded that any policy regarding food tourism should be based on the particulars of the specific region, the terroir. Successful food tourism can also lead to other benefits such as sustainability of the local environment and preservation of cultural heritage.³⁸ The combination of tourism, culture, and local food are shown to be responsible for substantial business activity in rural areas in Norway and provide opportunities for development and growth.³⁹ At the same time, tourism is not the original purpose of summer farms, and if the prerequisite to receive subsidies is to work in a traditional way there might be an inherent problem.

Biodiversity values and forest and alpine grazing

In Norway, grazed forests are now, according to the red list for ecosystems and habitat types, defined as belonging to the red list category *near threatened* (NT), and semi-natural grasslands are *vulnerable* (VU).⁴⁰ In Sweden, grazed forest habitats have decreased the most during the last century.⁴¹ Grazed forests are sparse. As a result of continuity over many years and the existence of old trees, sun-exposed wood, litter-poor soil, flowering bushes and trees, and border zones, they are species rich.⁴² In the traditional husbandry systems, grazing animals were able to move over large continuous areas, resulting in dispersal of plants and animals between remote areas. The large areas that animals covered created a gradient in grazing time and pressure,⁴³ and resulted in a mosaic with early and late grazed areas. This also created a gradient in grazing and trampling pressure, with the most intense effects just outside the infield (*jäbodvallen* in Swedish or *setervoll* in Norwegian) of the summer farms. These semi-natural patches are still valuable areas for biodiversity, and studies show that remaining patches are preferred as grazing areas for dairy cows both in the Swedish and Norwegian summer farming landscapes.⁴⁴

The species richness of grazed forests and alpine areas varies with climate, soil conditions, supply of nutrients and water, and the intensity of grazing and



A farmer at Nyvallen, Härjedalen, Sweden, together with the leading cow Nejlika [Carnation], an 18-year-old Swedish mountain cow with plenty of experience. July 2012.

trampling.⁴⁵ Biological traces of former land use, such as grazing, in forests and alpine areas are, however, often difficult to verify, and the degree of “wilderness” of a landscape is often discussed in connection with biodiversity, conservation, and forest management.⁴⁶ Field layer vegetation established in grazed forests and alpine areas is more or less the same as vegetation found in other semi-natural pastures at the same climatic gradient.⁴⁷ Plants associated with traditional agricultural practices have been part of the scenery for at least 2,500–3,800 years, but the number and variety of plants are declining due to overgrowth processes in both lowland and upland areas. In Norway, more than 80% of all threatened species are found in forest, agricultural, or semi-natural habitats.

In days past, a shortage of hay in the winter resulted in many semi-natural habitats needing additional food sources such as leaf fodder. Both in the infields of both the homesteads and the summer farms as well as on outlying land there were often pollarded trunks of goat willow (*Salix caprea*), rowan (*Sorbus aucuparia*), and downy birch (*Betula pubescens*) as well as coppiced hazel (*Corylus avellana*), alder (*Alnus* spp.), and downy birch. Pollarding increases the longevity of trees, and old pollarded trees are important habitats for a variety of species, including mosses, lichens, insects, and birds. Today most are threatened due to end of this type of farming, overgrowth, and afforestation.⁴⁸ Light and age are two especially important factors contributing to the conservation value of pollarded trees as well as other trees and bushes in semi-open forests. Typically, sun-exposed stems and branches become thicker, and the trees survive to a greater age, which promotes the formation of substrates such as sun-exposed dead wood that are rare or lacking in forests.⁴⁹

Many different mushrooms grow in grazing lands, not only threatened red-listed mushrooms such as *Gomphus clavatus* and *Sarcosoma globosum*, but also

the commonly used food mushrooms such as chanterelle (*Cantharellus cibarius*), parasol mushroom (*Macrolepiota procera*), and *Agaricus* spp.⁵⁰ Mushrooms prefer ground trampled by animals, and many species also depend on cow dung.⁵¹

Many plants, for example *Nardus stricta* and *Lycopodium clavatum*, also grow well in grazing and trampling grounds, often by competitive exclusion of more palatable species. Other species prefer the more sunlit forest resulting from grazing, such as *Botrychium lunaria*, *Platanthera chlorantha*, and *Pyrola* spp. Some species, such as *Rhinanthus* spp., are dependent on trampling because their seeds cannot germinate in litter-rich soil. Examples of red-listed species in the summer farming landscape are *Nigritella nigra*, which is endangered in Norway and Sweden, and *Pseudorchis albida* (near threatened in Norway and endangered in Sweden).⁵²

CONTINUED FOREST GRAZING is also important for many insects. For instance, dung beetles require cow dung free from anti-parasite drug residues in a continuous supply year after year, and they also depend on good soil quality.⁵³ Furthermore, the outlying soils are often sandy mineral soils unsuitable for cultivation, but they are needed for the ground-nesting wild bees now threatened in all of Europe.⁵⁴ The outlying land is definitely to be considered a cultural landscape shaped by various extensive human activities.

Market economy or full-cost subsidies?

The agro-environmental measures in Sweden imply that funding is given to farmers that manage specified types of habitats in a certain way. Farmers are compensated for the costs of managing an area calculated from a general formula. In some regions, this might be a fair deal for farmers because the actual cost is



PHOTO BOLETTE BELL BJORFORSK

Activities at the Gjermundshaug summer farm, Alvdal, Hedmark County, Norway, July 2011. Tourists gathering (left) and rinsing the butter (right).

lower than the calculated cost, and the animals are, in most cases, re-located to less productive pastures instead of using arable fields for grazing. The farmer is then compensated for the potential lower growth of the animals. The situation is more complicated for summer farms. The distance from the home farm is often great, which could cause problems when legislation dictates that all animals have to be counted and examined each day but the farmer is simultaneously required to harvest hay or crops at the home farm. Farmers both in Norway and Sweden might also, for economic reasons, need to have a part-time job far from the summer farm.

The present level of compensation in Sweden is €2,050 for an active summer farm plus €80/ha of grazed area. Many farmers complain that the payment is much too small, and the fact that the payment has decreased substantially for many of the farmers since 2006 is very frustrating. It is easy to understand the frustration of the farmers because the compensation for forest grazing in other parts of Sweden is €205/ha, and €275/ha is paid for grazing “species-rich open grasslands”. These types of pasturelands are fenced, whereas summer farm grazing is not, and the animals are often situated fairly close to the home farm, which reduces the cost and time spent looking after the animals. In Norway, eleven out of twenty County Governors now offer an active summer farming payment through Regional Environmental Schemes. Ten of these County Governors request dairy production on the summer farm.⁵⁶ Also, the Norwegian government promotes grazing through various other payment schemes.⁵⁶

One of the most discussed parts of the agro-environmental measures in Sweden is the five-year commitment. This is certainly a difficult requirement for the practice of summer farming because the issues of large carnivores and the economic problems create uncertainties in whether the operation can continue

for the full five years. If a farmer does not meet the five-year commitment, there is a risk of having to re-pay all the payments received prior to that date. The uncertainty for farmers has started a discussion on having one-year commitments instead. It has not yet been decided if this proposal will be approved for inclusion in the common agricultural policy (CAP).

The definition of pastures, especially outland pastures, is frequently debated in the EU. One of the criteria for land to be defined as a pasture within the EU is that the number of trees has to be less than 50 trees/ha. In Sweden, this definition has been revised to 60 trees/ha. However, outland and summer farm pastures very seldom fit into this definition despite the fact that they have been the predominant area used as pastures historically in Sweden. Another criterion of the definition is that the production of fodder has to be high to be considered agricultural land, which, according to the EU Directorate-General for Agriculture and Rural Development, means a relatively productive (thus, often species-poor) grassland without a substantial amount of impediments or trees. This implies that outland pastures do not qualify for direct payment within the CAP, despite the importance of outland pastures to the agricultural system and their use as an important feeding resource for cattle in several regions today. Sweden is using the measures in the agro-environmental schemes to pay for the management in outland and summer farms, but the payment is remarkably low compared to payments for other types of pastures in Sweden, which in some cases receive additional income through direct payments.

The number of summer farms and utilized outlying pastures has decreased dramatically over the past century. This is, among other factors, highly dependent on the structural changes and intensification of farming and increased competition both nationally and globally. Despite the fact that just a fraction of the summer farms and outland pastures are still in use, few

political initiatives have been introduced to increase this number. The latest suggestions for regulation of the subsidy system in Sweden aim to decrease the economic support for summer farms, at least for those with a large number of animals. Although it costs more per cow or sheep to keep fewer animals on summer farms compared to keeping a larger herd, there are several factors to consider. Managing a summer farm includes the need to be away from the home farm during a long period in the summer, which may be difficult for a full-time farmer because other farm tasks must be completed, such as harvesting winter fodder. This aspect of farming increases with the number of animals. The management of summer farms can be hard to coordinate with other employment, at least during parts of the year, and especially if the farm is far away. This is a reason for at least offering the same amount of subsidies for large farms as for smaller. The large farms have more opportunities to be active and survive in regions where other types of employment are scarce.

In Sweden, small-scale pastoral farming is subsidized mainly for preservation of natural and/or cultural heritage values rather than for production of agricultural products, but in Norway the subsidies serve a multifunctional purpose. The supporting policies, at least in Norway, are intended to help maintain rural settlements and secure the strategic capacity for independent food production. Investigations in Norway show that maintenance of cultural landscapes and common goods are parts of the agriculture and agricultural policy that are appreciated and supported by people in general.⁵⁷

In Norway, agriculture is supported in several different ways, but to be entitled to receive support, a farm has to comply with several requirements. Only farm firms can apply for production support, and they must carry out “normal” agricultural production. Agro-environmental support is provided by national,

regional, and local agencies, and grazing is promoted by various payment schemes. Still, Norwegian farmers face challenges with regard to support. One of the challenges pointed out by them is that the level of payments today differs between different Counties.⁵⁸

Conflicting interests: the issue of large carnivores

The biodiversity found in open semi-natural pastures, summer farms, grazed forests, and semi-natural alpine habitats depends on continued extensive grazing and trampling of livestock⁵⁹, and in alpine areas reindeer grazing and trampling is also important for biodiversity.⁶⁰ This extensive practice of utilizing the outlying land makes the free-ranging animals more vulnerable to attack, especially sheep.⁶¹ On the other hand, free-ranging livestock have more possibilities to escape the attack. When attacks occur in fenced areas, the injury and death of livestock are often greater. The carnivore situation has gradually become more problematic for the farmers during the last decade. In Sweden, many summer farmers have stopped moving their sheep to the summer farms or have given up having sheep altogether because of the inability of sheep to protect themselves. In Norway, the situation resembles the one in Sweden about five years ago; most farmers have, so far, not experienced any problems, but some attacks have occurred.

Large carnivores have a high conservation value because they are threatened in most countries both within and outside Europe. Today in Sweden and Norway, the populations of large carnivores are growing. Conservation of large carnivores is very costly because carnivores move over large areas where they affect the everyday life of livestock owners. Every year, large sums are paid as compensation for damage and mitigating measures.⁶² However, many farmers have large indirect costs that are not compensated, such as lower milk production and lower fertility in affected livestock, long hours spent searching for animals escaping from attacks, and sleepless nights from worrying about animals. Swedish studies have shown that peo-

ple living in carnivore-dense areas feel that they do not have any influence over decisions and management because the decisions are ultimately directed from the EU government authorities.⁶³ Without acceptance, effective management is inhibited as shown in both historical and social sciences studies.⁶⁴ Resolution of conflicts between stakeholders regarding carnivore management is essential in order to reach acceptance. The most important questions are related to effective management of problem animals and acceptable and well-functioning damage compensation systems.

Conclusions

Different people view landscapes and their values very differently. In this article, we have focused on the outlying grazed land of the Scandinavian transhumance systems. Through narrow professional views, the governance and management of these landscapes is divided into separate elements without holistic strategies. Different professions focus on “their” specific elements, objects, or phenomena in the landscape. Some focus on cultural aspects, while others focus on biological values. Central in this landscape of perceptions are the farmers, who strive to run a viable farm while trying to manage the interests of most of the other groups that perceive different values in the landscape.

The compartmentalization concerning the management of the landscape and its resources results from the lack of coherence among governmental institutions. This not only has negative effects on biodiversity and cultural values but also increases costs for the affected farmers. This is particularly the case with regard to the increasing population of carnivores that threaten the livelihood of today’s summer farmers as well as the biodiversity that is dependent on continued grazing.

The economy of small-scale farming in Sweden and Norway has not grown like other sectors of society. Today, compensation for conservation of ecological and cultural functions and values is a necessary element in most summer farm enterprises in Sweden. However, the

compensation for summer farming is relatively small compared with support given to other farmers. Active summer farms are now very few in number compared to 100 years ago, and in Sweden, little is done on a national level to actually increase this number. On the contrary, the latest proposals for management compensation indicate that the support levels might be even further reduced. In Norway, summer farming is supported in most counties, but here the subsidies are also generally too modest to make summer farming attractive to the

next generation. Adequate compensation for continued management of summer farms and the grazing of outlying land is crucial if this customary practice is to continue in the future.

The outlying grazing land and summer farms represent a meeting point for different interests and business ventures. For the long-term viability of summer farms in Sweden and Norway, it is essential to establish a genuine dialogue between the administrative authorities and the different stakeholders, particularly the farmers, because their management, often based on generations of local and traditional knowledge, is the very basis for upholding the many values connected to the summer farming landscape. To be able to make a living on their summer farms and, at the same time, contribute to the preservation of cultural and nature values, the farmers need regulations and subsidies that are well designed and stable. However, a large proportion of today’s landscape governance and rural policy is characterized by “short-termism” and “projectification”. Consequently, there is a need for increased and open dialogue with the farmers, a more holistic view of landscape governance, and fewer fluctuations in management policies.

We believe that the separate perspectives of different authorities and scholars on the Scandinavian transhumance landscapes can meet. The summer farms and the landscapes of which they are part can serve as the base for high-quality food production, and can contribute with sources of a wide range of valuable knowledge and skills rooted in pre-fossil energy-based agricultural systems, while at the same time conserving and developing biodiversity and the cultural and recreational values of the landscape. For this to happen, the sum of the conditions for the farmers must be supportive of continued use of the summer farms, and the farmers need to be part of, and able to influence, the policymaking and management of these landscapes. The summer farm landscapes, like all landscapes, need to be managed from within a holistic, long-term perspective.

FINALLY, WE WILL CONCLUDE and summarize with the following points. There is a need for

- holistic and long-term perspectives on governance and management of landscapes with a focus on the farmers’ situation;
- increased dialogue between authorities, scholars, and local farmers and communities, as well as increased participation of local farmers and communities in decision-making processes;
- increased dialogue between and within different authorities and research institutions; and
- identification and evaluation of conflicting targets, and genuine efforts through dialogue to reconcile these. ✕

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Dairy products produced at different Swedish summer farms represent local specialities from traditional small-scale food handicraft.



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