

SWEDEN – KALMAR

Dairy plant “Emå Mejeri”

The project is an example of how farmers have taken control of the whole production chain, enabling them to get more money for their milk and produce dairy high quality products with a minimum negative impact on the environment.

1. Project details

Nature of the project

Purpose: To establish a local dairy plant offering farmers a local alternative to the big national and international dairy producers and the possibility to receive a higher price for their milk and an increased added value of their product. The main objective of the two farmers who implemented the project was to offer high quality dairy products produced by local farms on the local market with maximum radius of 120 km. The dairy products are labelled with the name of the farm that produces the milk.

Content: The conversion of an old charcuterie to a dairy plant and production and distribution of milk and dairy products from local dairy farms to a local market in a sustainable way by reducing transport and using only natural ingredients.

Inspiration: The inspiration came from two milk producers who wanted to control the whole production chain. The idea was to produce high quality dairy products reducing the negative impact on the environment and improving their income. *"The primary reason was not to get rich, but to produce a product to be proud of".*

Policy coherence: The project is connected to strategies both on local and regional level by providing a more diversified working life in rural areas. The Regional Development Fund (ERDF), the National Rural Development Programme (RDP) as well as the strategies at regional level have established measures targeting the development of new working opportunities within new sub-sectors, with the aim of leading to a more diversified working life. The company has grown to about 20 employees from its start in April 2007. The project also targets sustainable development with a minimum of negative impact on the environment, a main horizontal goal of the RDP as well as the ERDF.

Links between agriculture and the rest of the economy

Main agricultural sub-sectors involved: The main agriculture sector involved is the local dairy farm sector. Other sectors involved are processing of dairy products, local retail trade, wholesale trade and transport.

Description of these links: The Dairy plant (two farms) buys all the raw material from local farms. They started by using milk from their own farms but are now using milk from 5 local farms (total 800 cows). They also produce milk from other areas on contract from the nearby dairy brand "Östgöta Mjök" and are producing milk on contract for one of "the big five dairies" Arla in Sweden.

Scale of the project

Size: The dairy processing unit covers 2,500 square metres and has a capacity of 80,000 litres per day and will process another 10,000 litres per day in relation to the contract signed with Arla. This will result in some 28,000 tonnes per annum.

Time scale: The dairy plant was established and had its first delivery in April 2007. The timeframe for investments is 2006 to 2010

Coverage: The dairy plant covers a local region in Kalmar County, mainly in Hultsfred municipality.

Beneficiaries and supporters

Beneficiary: The two farmers who proposed and implemented the project are now managing the company.

Supporters: The project was supported by the University of Kalmar which helped to develop and design the packaging of the products. It is also supported by Coop and ICA, the main trade chains who buy the products. The company delivers its products to 150 shops within the area. The local municipality-based and owned business advisory centre supported the project, together with the state owned regional business advisory centre, through the provision of advice.

Finance

Funding:

- a. Funding from the RDP – 120,000 EUR (1,200,000 SEK), axis 1 measure 123 and about 50,000 EUR for competence development within axis 1
- b. Bank Loan from Nordea Bank – 75% of the investment
- c. A loan from the state owned "Almi Företagspartner", regional business support centre, topped up the loan from the Nordea Bank and was a precondition for the bank to support the project with a loan, 25 % of investment together with other private financing.

Budget: The total budget is 300,000 EUR. The annual turnover is 48,000 EUR for 2007/08 and expected to be 70,000 EUR for 2010

Investments: total investments has been 150,000 EUR (15M SEK) in the first stage and 150,000 EUR (15M SEK) in the second stage.

Results

Direct results: The result is better than expected. From the beginning of its operation, the dairy plant was planned to process the milk from one farm and after two years from the second farm (that of the other co-owner). Today the plant processes milk from five different local farms and from other nearby farms on contract from another local brand. It will also soon start (summer 2010) processing milk on contract for Arla (the biggest dairy plant in Scandinavia). It has been able to increase the quantity of milk processed without compromising the quality of the production and still have 20 different local products, such as butter, milk and buttermilk within the own brand.

Main target: Local farmers, the local community in Hultsfred

Wider benefits: The project is innovative in the Swedish context. The establishment of local dairies is currently rare in Sweden, and some who have made attempts were obliged to close down within a year. The main positive spill over effect is the development of a project aiming at establishing common logistics and development of new local rural products.

The project also has changed the attitudes towards local production, usually characterised by the small scale and almost non-profitable. The realisation of this project has proved that local production can be profitable, despite its small scale, and characterized by high quality in terms of product development, packaging design, management of the company and organisation of sales and marketing operations.

The support from the local community is high.

2. Relevance of case study experiences for others

Problems: The main problem was related to funding, since it is hard to get loans on the open market for establishing new business activities in rural areas.

Transferability and mainstreaming potential: The project might be adapted to other geographical areas and sub-sectors of the farming industry. The project is an example of how the farmers can raise their profit by gaining from the marketing of products produced in a sustainable way (reducing transportation and using only natural ingredients) and gaining control of the whole production chain.

Innovation: The project is considered to be innovative, mainly in relation of the management of the company and of the distribution of the products on the local market.

Institutional aspects: The elements involved were the:

- Local business advisory department of the municipality who supported the project and provided advice and useful contacts.
- The University which gave advice on the development of the market strategy and supported improvement and design of the packaging.

- The County administration which provided advice and financial support by RDP
- “Almi Företagspartner” (regional business advisory centre) which helped in negotiating with the bank and thus assisted the entrepreneurs in receiving the loan for their investment.

The local LAG was not directly involved.

Social aspects: The farmers deliver milk with their own farm names on the packages and they participate in developing niche products (one example is hand made whipped butter), famous for high quality and for the sustainable approach in production and distribution.

The project has created 20 new jobs in a region with generally poor employment opportunities (those that exist are mainly within the public sector) especially for women. By this project the labour market in the region has become more diversified, boosting the attraction of the region for the establishment of new companies and settlers. Also 20% of the employed personal were long term unemployed or have some disadvantage.

Environmental aspects: the dairy products are produced using an environmental friendly approach, based mainly on the reduction of transportation.

Sustainability: The project is self sufficient with a turnover of about 48,000 EUR in 2007/08 and expected turnover of 70,000 EUR in 2009. The profit was lower during the first two year but is expected increase in 2010. The project is expected to be economical sustainable from 2010.

Lessons to pass on: The private investors have to be extremely committed. Financing and handling of licences and permission connected to the food industry are some of the most common obstacles. It is often necessary to get help from professional consultants to overcome those obstacles.