

Norwegian agri-food attracting Private Equity capital

Varieties of capitalism - Varieties of financialisation?

Abstract

Due to the (relatively) small scale of the Norwegian food industry, Private Equity capital is deeply involved in the structural development of the sector through acquisitions and takeovers. The Norwegian social-democratic model of agriculture, with its attempts to maintain farming all over the country, struggles with comparative disadvantages in productivity and Private Equity capital is investing in direct competition with farmer cooperatives. An outline of the socio-economic characteristics of the Norwegian model as well as those of Private Equity illuminates why they both fit well together. Thus, we argue in this paper that it is the Norwegian model of agriculture, with its non-market based elements, that today attracts finance capital and discuss whether this involvement of finance capital can be considered a process of financialisation. Findings based on analysis of case studies of Private Equity buyouts into the agri-food industry suggest that the economic motives of Private Equity takeovers are based on a combination of typical industry capitalism with investments in productivity and efficiency, rather than merely financialisation. Findings are interpreted in a variety of capitalism framework combining social theory on financialisation with business school theories on Private Equity transactions.

1. Introduction

This paper studies how Private Equity capital has been involved in the structural development of the Norwegian agri-food chain since the 1990s. The main question addressed in this paper is whether these Private Equity buyouts relate to a specific Norwegian variety of agri-food financialisation, or whether they are rather consequences of processes of globalisation and professionalisation. With reference to critical social science perspectives on financialisation, we ask whether these buyouts are cases of a subsumption of agri-food industry under the logic of finance capital accumulation. With reference to a business economics perspective, financialisation can be seen as a strategic response to opportunities for value creation. We aim to provide a deeper understanding of the role of finance capital in the restructuring of the food

industry as well as a discussion of the opportunities and challenges with Private Equity driven financialisation in the agri-food chain in general and the Norwegian system in particular. We start by outlining the political context of the Norwegian food industry as it has changed from the 1990s onwards. The theoretical frame consists of two stages: First, the Norwegian capitalist market economy is analysed with reference to Karl Polanyi's (1944) concept of labour, money, and natural resources as fictitious commodities. Second, we discuss the economic and strategic aspects of financialisation, with reference to Private Equity buyouts in general and the agri-food chain in particular. In the empirical analysis the paper examines three cases of Private Equity buyouts which have taken place in the Norwegian food industry. The conclusion outlines a specific Norwegian variety of agri-food financialisation and argues that future research need to specify the context in which financialisation processes take place.

2. Methodology: a contextualist framework

Our study is a qualitative one, methodologically legitimated as an explanation-based, contextualist approach (Mjøset, 2009a, 2009b), related to the tradition of middle-range realism (Pawson, 2000). We trace agri-food financialisation in the macro context of Norway's political economy since the 1990s. Our empirical material grounds on the in-depth study of three Private Equity buyouts in Norwegian agri-food chains. The main empirical input is six information gathering interviews with top management in the Norwegian Private Equity community. Four interviews relate directly to the responsible management behind the three cases of this paper. We additionally were interviewing two other Private Equity investors. The first had undertaken a buyout while the second was analysing the Norwegian market, but decided not to invest. Since the 1990s we identify five Private Equity investments in the Norwegian agri-food chain and altogether we were able to interview four of those. The interviews were conducted between April 2012 and February 2015. They were mainly focused on the strategic meaning of food industry mergers and acquisitions in the Norwegian context. Additionally we supplement the study with empirical sources on the Norwegian variety of capitalism – specified for the food sector – since

the 1990s (part 3), with a substantive-qualitative model of financialisation (part 4), and inputs from previous research on agri-food financialisation and Private Equity (part 4.3). On the basis of the cases of Private Equity in the Norwegian agri-food sector, we conclude with tentative generalisations on finance capital involvement in the sector. The cases chosen stem from different stages of the development of Norway's agri-food chain. Each one exemplifies a particular investment strategy. We study these buyouts with particular attention to complementary institutional transformations that have taken place since the 1990s decade. Our aim is to explain the specific development of agri-food financialisation in the Norwegian context. Our tentative *moderatum* generalisations (Williams, 2000); Payne and Williams, 2005) build on specified cases and on recognisable patterns related to previous findings in comparable research. This relates to formal and substantive theory and concept development in grounded theory (Glaser and Strauss, 1967; Mjøset, 2009a:52) and not to generalisation to population. With our access to four out of five examples of Private Equity investments in the Norwegian agri-food sector we intend our findings to be valid for, yet limited to, these activities in its specific macro-context, which is Norway since the 1990s.

3. Food politics and industry structure in Norway since 1990

Polanyi's (1944) analysis of the three fictitious commodities labour, money, and natural resources being the substance of any industrial society can be applied to the study of the Norwegian variety of capitalism. Liberal attempts to subordinate these elements under the self-regulating market rationality, Polanyi argues, have historically resulted in social counter movements establishing institutionalised protection systems. Labour markets are protected through cooperative bargaining systems; money is regulated through central banks and monetary policies, while the commodification of natural resources, like agriculture, forestry, or oil and gas, is limited through concession laws, farmer cooperatives and the like (Mjøset, 2012:19). Analysing the national institutions that regulate Polanyi's three fictitious commodities can aid comparative studies on national varieties of present day capitalism. We therefore use the concept of *market-organising*

institutions (Esping-Andersen, 1990; Mjøset, 2011; 2015) as complexes of market embeddedness. Since many different market-organising institutions regulate the three elements we treat them as the labour complex (L-complex), the capital complex (C-complex) as well as the natural resource complex (NR-complex). For our purposes, we integrate agriculture and the agri-industrial complex into this frame of Norway's national political economy. Food products are important inputs into the wages of the farmers in the L-complex, and they are produced from natural resources. Through the period we study, the C-complex has been entirely transformed by deregulation. This yields a political economy framework which allows us to study Norwegian agriculture, Private Equity, and financialisation since the 1990s within the context of the Norwegian model of capitalism.

The main feature of Norwegian economic development in the post war period has been the transformation into an oil rent economy in the 1970s and harmonisation with EU economic development since the 1990s (non-member of the EU, but associated via the European Economic Area-agreement (EEA)). Below we trace transformations in all the three complexes since the 1990s decade, with particular attention to agri-food as subordinated under the NR-complex.

The **L-complex** is based on the social partners' willingness to cooperate. The bargaining system between labour unions and employer associations is the main set of market-organising institutions. Norwegian agriculture is integrated into this bargaining system since farmer associations negotiate agricultural prices with state authorities annually, and these agreements are de facto income settlements. This institutional mechanism channels rents generated within the NR-complex (the use of land) into the L-complex, thus giving farmers predictable income development. Since the 1990s the L-complex has basically not changed, but the farmers' integration into the L-complex is under pressure through World Trade Organisation's (WTO) liberalisations. We return to this below.

As for the **C-complex**, Norwegian financial markets and short term capital flows were deregulated in the 1980s and 1990s and a domestic market for Private Equity came in place.

Internal deregulation in the early 1980s liberalised housing markets and the credit systems, of which the latter, since then, had been left to the private banks. The liberalised credit system developed into a credit financed consumption bubble and culminated in a banking crisis in 1992. (Mjøset & Cappelen, 2011) On the other side, adjustments to EU monetary policy making was the main external force behind financial deregulation in the course of the 1990s, in particular EU integration through the EEA. The establishment of the petroleum fund (Norwegian Pension Fund Global), as a connection between the NR- and the C-complex, from 1996, integrated the Norwegian economy into global financial markets through the funds international investment strategy (NBIM 2014). The Norwegian Private Equity actors were latecomers, in a global context, and became serious players in this market only since the late 1990s decade after the banking crisis (NVCA, 2011). The market is limited in size and has long been dominated by the venture segment. The Norwegian state was engaged in early market development, with focus on the venture segment, through state owned investment companies (e.g. Norsk Vekst AS, Argentum AS). But since 2007 in sum most capital is committed to the buyout segment.

Figure 1 about here

Figure 1: Norwegian Private Equity fund raising since 2003 (Source: NVCA 2010)

The Norwegian Private Equity market has a domestic and Nordic character. In 2010 70 per cent of the portfolio companies owned by Norway based funds were headquartered in Norway and 15 per cent in Sweden. In the same year 70 per cent of the portfolio companies were located within technologies (ICT, petroleum, life science, renewable energy). The market therefore has a focus on Scandinavia and on the specific structure of the Norwegian oil and energy economy. But despite this domestic orientation, 60 per cent of new capital committed to Norway based funds in 2010 was foreign capital. There are also many Norwegian companies owned by foreign Private Equity funds.

The **NR-complex** is dominated by the exploration of oil in the 1970s. Natural resources have always played a major role in the Norwegian economy. Norway is an exporter of timber, fish and

energy, but a net importer of agricultural products (approximately 60 percent of calories consumed). Market-organising institutions follow the logic of comparative advantages and the export possibilities which underlie each natural commodity. As for timber, fish and energy Norway has, due to topographic circumstances, comparative advantages that allow for developing competitive export industries on their basis. The Norwegian model of agriculture, with its attempt to produce volume, does not have these advantages in this far Northern area.

Table 1 about here

Market-organising institutions had been developed before oil came into the game. A system of collective regulations and concessions was first developed in agriculture and the fisheries. When oil was discovered, Norway had already a tradition for regulating the NR-complex for the sake of Norwegian collective interests. (Mjøset and Cappelen, 2011)

As for land-based food as part of the NR-complex, a protectionist system of import regulation, target prices and market regulation has been developed. Norwegian agriculture is based on a target price system on selected agricultural products, especially milk and meat. Target prices are average prices that agricultural producers are permitted to obtain in the market. These prices are based on annual negotiations between the state and the two main farmer associations. The aim is to control domestic prices and to safeguard the objectives of national agricultural policies which are income equalisation, localisation of small-scale farming across the entire country, rural settlement and national food security (Almås, 2012). Negotiated prices, import restrictions and a system of supply-demand regulation are the main ‘non-capitalist’ pillars for the nationalisation of food. Institutional complementarities (Crouch, 2010) connect the NR-complex (food) to the L-complex (income policies) and integrate agriculture into the broader frame of the national model of coordinated capitalism.

The Norwegian agri-industrial complex is divided into two parts, an agricultural industry and a processing industry. This is due to the protection of national raw produce. Within the agricultural industry two nation-wide organised farmer cooperatives has come to enjoy the position of a semi-

authority. The Cooperative Marketing Act (*Omsetningsloven*) delegated the regulation of supply and demand of milk and meat to the cooperatives. Various administrative procedures have been established to regulate supply and to avoid overproduction. Without them, there would have been pressure on the negotiated prices. Since the enforcement of the Act, the cooperatives have a double function. They are commercial players on the markets and they have an administrative function which is particularly sensitive to market information. The target price system has since the 1990s come under pressure from WTO liberalisation. Target prices are subsidized prices underlying the AMS, which is WTO's yellow box. These WTO-agreements therefore require them to be reduced. In recent years the partners of the agricultural negotiations agreed to exclude poultry and beef from the target price system, and it has been claimed that this was related to the limits set by the WTO (Veggeland 2001, Olsen 2010). The complementary institutional integration of agriculture into the Norwegian cooperative model is thus seen as threatened through WTO since the 1990s.

The processing industry operates under the *raw material compensation* (RÅK) scheme (Borgen and Svennerud and Vengnes, 2001), which is an attempt to protect the input of Norwegian raw produce under free competition at the industrial level. The so-called *non-annex 1 products* relate to the EEA agreement, which defines commodities that are subject to the raw materials price compensation. Three instruments can be applied to compensate price differences on raw materials. These are direct tariffs on imported RÅK products, price write-downs on domestically produced materials, and export subsidies that compensate for the price differences between Norwegian and international prices. But limits set by WTO also apply in these cases. The processing industry is fragmented, while the agricultural industry is clustered around the dominating cooperatives.

We find that in the quite small Norwegian food market, Private Equity capital is deeply involved in the restructuration of the industry. This is particularly so at those critical points in the agri-food chain that are the centrepieces of Norway's agricultural model. We locate Food, Private Equity

capital and financialisation in the context of Norwegian capitalism. We identify independent but complementary institutional transformations between the L-, C-, and NR-complexes in the Norwegian economy since the 1990s. WTO sets limits to Norwegian target prices and put pressure on the Norwegian model of agriculture in its complementary integration of the NR- and L-complexes. Once a Norwegian market for Private Equity was in place (C-complex), some investors acted to be first movers in a market which was expected to undergo further liberalisation. We argue that a substantive understanding of the financialisation of Norwegian food has to pay attention to these complementary transformations within Norwegian capitalism. Our analyses in this paper are thus not only directed towards food policies, but to interrelated transformations within the national economy. Institutional complementarities since the 1990s allow us to identify a national variety of food-financialisation in the context of Norwegian capitalism.

Figure 2 about here

Figure 2: Complementary institutional integration of Norwegian agri-food since the 1990s

4. Financialisation and Private Equity

4.1. Financialisation

Financialisation is a term that covers a whole research frontier that arose within the broader study of globalisation since the 1980s/1990s. It is an interdisciplinary approach (see e.g. Erturk et al., 2008) consisting of both economic and socio-cultural research. Hence, no broad definition exists in the literature. Financialisation is used to distinguish a new period in capitalist development, marked by a shift from the dominance of productive capital to the dominance of finance capital. In particular, we rely on the works of Perez (2002). The focus is on the relationship between productive capital, investing more or less in commodity production, and finance capital, investing in financial assets. Private Equity capital is a specific asset which still consists of both elements (see section 3.2). For this reason we combine social science perceptions of financialisation with business school perceptions of Private Equity buyouts. The linkage between both in this study is the financialisation of the firm, drawn from shareholder value management and agency theory.

Greta Krippner focuses on firm behaviour, defining “financialisation as a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production. Financial here refers to activities relating to the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains.” (Krippner, 2005:174) More generally, Gerald Epstein argues that “financialisation means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.” (Epstein, 2005:3)

Carlota Perez (Perez, 2002, 2009b; Mjøset, 2015; Kattel and Drechsler and Reinert, 2009) provides a substantive-qualitative model of the relationship between productive capital and finance capital in capitalist history. Her sequence model of great surges in capitalist development combines Schumpeter’s (1942) analysis of technological revolutions (techno-economic paradigms) with the role of finance capital organising the full-scale installation of new technologies. Each techno-economic paradigm (cotton in the late 18th century, railways since the 1830s, heavy engineering since the 1870s, the auto-industrial complex since the interwar period, and ICT since the 1970s) follows the four stages of irruption, frenzy, synergy, maturity. Such a great technological surge begins with the irruption of a new technology together with financial capital searching for new assets that generate higher returns. In a next step the potentials of the new technology become visible and attract even more finance capital. Financial innovations then become the starting point for a financial frenzy, cutting off finance from productive capital. Both processes, technological large-scale installation and financial capital innovation, lead into a financialised, frenzy phase of capitalist development. The frenzy leads to financial bubbles and ends in new regulatory efforts and a new synergy between the productive and the financial sphere. Perez demonstrates that financialisation is about recurrent hegemonic struggles between financial and productive capital in capitalist history, and actually no new phenomenon of the current era.

The financialisation of the firm signals a shift in corporate governance that has taken place in the 1980s. This started with the expansion of US conglomerates in the 1960s which resulted in too

big and too diversified companies which were underperforming. In the following “a group of American financial economists developed an approach to corporate governance known as agency theory.” (Lazonick and O’Sullivan, 2000:15) Agency theorists argue that corporate managers (the agents) operate opportunistically using their control over corporate resources to pursue objectives that were contrary to the interests of the shareholders (the principals). Economists then argued for a realignment of interests between the principals and the agents of the company and the answer has been found in shareholder value- or value based management. Economists like Michael Jensen then forecasted the eclipse of the public corporation (Jensen, 1989). Private Equity, and this is the point here, has been presented as one central business model that would respond to these problems (discussion below). Value based management was a way to run the company by emphasizing shareholders’ interests in contrast to the alternative stakeholder interests. Corporate financial indicators like free cash flow or stock prices were made the central measures of economic performance. The realignment of interests between principals and agents is thus based on management principles that bring together operative and financial performance. It is here the financialisation of the firm is located. In the next section we will discuss how Private Equity fits well into this frame.

4.2. Private Equity buyouts

Private Equity buyouts have been much debated since the 1980s liberalisation of capital flows and the globalisation of economic activity. (Jensen, 1989; Kaplan, 1991; Kaplan and Strömberg, 2009) In this section we briefly discuss fundraising, typical transactions, and some common features of those companies and markets that primarily are targeted by Private Equity capital. Since scientific literature on Private Equity activity in the food industry is rare, we have to connect these investment characteristics with the overall characteristics of food industries.

A Private Equity company raises closed-end funds which have a fixed life. Money paid into these funds is provided by the limited partners. Private Equity companies function as general partners who manage the funds transactions over a fixed time period from typically up to 12 years. Within

this fixed time frame, the Private Equity company invests in a portfolio of companies. A buyout is a takeover of a company or of single divisions of a company. These portfolio investments have a fixed time frame of typically 3-7 years, too. A Private Equity fund thus consists of a portfolio of temporary fixed investments. When transactions are completed the fund is completed, too. Earnings are paid to the limited partners who provided the money. The financing of these portfolio buyouts usually consists of 60 per cent to 90 per cent debt and 10 per cent to 40 per cent equity which was provided to the fund from the limited partners. Additionally both the general partners as well as the managing staff of the targeted portfolio companies contribute with a small proportion of equity to strengthen incentives to realign agency problems between the operative management and the shareholders. (Kaplan, 1989) The term leverage grounds in the relatively high degree of debt financing and critics of the Private Equity industry most commonly refer to the debt proportion and associated risks. Kaplan and Strömberg (2009:130) see a shift in the Private Equity industry in the early 1990s from financial engineering and corporate governance to a deeper focus on operative performance.

Financial and governance engineering typically relate to three features. The first is a high degree of leverage, financed through debt. The second is the integration of management staff into the financial structure of the transaction through equity stakes. The third is the strategic focus on tax deductibility in the run of the debt applied. Financing buyouts through a high degree of debt pushes the returns on equity given that interest payments are lower than the returns generated through the transaction. Debt therefore leverages the returns on equity. Another important point of financial engineering is high amounts of free cash-flow, because “leveraged buyout candidates are frequently firms or divisions of larger firms that have stable business histories and substantial free cash flow” (Jensen, 1986:325). Cash available might motivate managing staff to dissipate money. Debt therefore not only leverages the returns, it also helps to realign management and shareholder interests to run the company more effectively. Jensen argues that “debt reduces agency costs of free cash flow by reducing the cash available for spending at the discretion of managers. These control effects of debt are a potential determinant of capital structure.” (Jensen,

1986:324) As for governance, the Private Equity company therefore seeks to integrate management staff into the financial structure (equity stakes) and debt functions as a control mechanism to run the company operatively. Empirical studies of the 1980s buyout wave show that management ownership rose by the factor four when going from public to Private Equity ownership (Kaplan, 1989).

Critics of the Private Equity industry often mention tax deductibility and negative effects on employment as main reasons. For the present analysis of financialisation we do not deepen the discussion of the social effects of buyouts, but Kaplan and Strömberg (2009:133f.) argue that tax deductibility counted for 10 per cent to 20 per cent of total firm value in the 1980s buyout wave. They also show that employment rates after Private Equity buyouts in sum are positive, despite harsh social consequences through operational restructuring in each single case. There has also been a discussion about whether Private Equity creates real social values or whether it just skims off value into the hands of a few. The authors claim that through the 1990s, there was a shift in the Private Equity industry towards operational performance and industry focus. Today Private Equity companies often target specific, singular industries, applying expert knowledge as well as capital and networks to the companies acquired.

In sum, these are the characteristics of companies that typically become targets of Private Equity buyouts. Buyouts focus on mature and underperforming companies that operate in markets with favourable industry trends. Industries with stable cash-flows serve to finance the debt in buyouts. Food industries mostly generate stable cash-flows, since food consumption does not follow economic cycles. (Hansen, 2013:320) Furthermore, food production is not as capital intensive as other industries might be. A lower capital commitment may therefore serve to finance buyout transactions. Barriers to market entry and to substitutes or strong customer relationships are additional general features that make a company or an industry an attractive target for a takeover. (Porter, 2008) The latter characteristics all apply to the Norwegian food industry on a general level.

4.3. Financialisation in the agri-food chain

As outlined above, financialisation refers to the phenomenon where players within private equity, venture capital, hedge funds, and sovereign wealth funds (such as pension funds) become increasingly involved in the global economy and its governing institutions (See Epstein, 2005). Such actors buy into products, industries or businesses mainly aiming for profit making. They typically restructure the company to improve operations, then proceeding to sell the business to an actor who is willing to pay well. The main focus here is on financial results rather than production results (Sippel et al, forthcoming).

In the aftermath of the financial crisis of 2007/2008 with the consequence of rising prices in food and agricultural commodities increasing financialisation has been observed in all parts of the agri-food chain (Brobakk and Almås 2011; Burch and Lawrence, 2009; 2013, Clapp; 2014, McMichael 2012). So called speculative investments in commodity and future markets have also increased dramatically. Asset managers increasingly invest in activities where they have never before been involved, such as in farmland, inputs to production, storage and logistics, inspection and certification, food production and processing, commodity trading, or retail food services (Burch and Lawrence, 2009; Burton and Bjørkhaug 2015; Lawrence, 2014). A major body of literature has focused on activities that has been denoted “landgrab”, analysing the effects of foreign investments in land on small scale farmers/ peasants, local communities and property rights in areas characterised as the global south (McMichael 2012; White et al 2012) such as dispossession of local farmers, change of production into biofuels or so called “flex crops” (growing of most profitable crop irrespective of other needs) (McMichael 2012; 2014). These activities have led to concern about the balance of power in global and local food systems and food security. In the literature of financialisation, there are fewer examples of such investments in the agri-food chain of the global North and the effects of this. However, some examples exist. They are mainly cases in which farms, industries, or businesses in the agri-food chain are targeted. In a recent study by Sippel et al (2015, forthcoming) financialisation in the Australian agri-food

sector is analysed. Their study of foreign investment in Australian farms illustrates the complexity of the challenges that occur with such investments. While activities can be financially viable, local interests and concerns are neglected or not acknowledged. Still, foreign investments in the agri-food sector are strongly encouraged by Australian government.

A major challenge with current financialisation is its system of governance. Given globalisation and a neoliberal agri-food market model, an international system of governance is necessary to protect society against negative social, economic and environmental externalities (Clapp and Fuchs 2009). It is also necessary that there exist legitimate national systems of governance that are able to negotiate national interests and rights, mediating between the development of global trade and local value creation (Bjørkhaug et al 2015). Corresponding to the trend of increasing financialisation of the agri-food sector globally also examples of financialisation in both chicken and dairy sector have been found in Norway (Almås, 2013; Klimek, 2015). This trend is also on the rise throughout Scandinavia, but consumer cultures and political governance models seem to make a difference (see Almås, 2015; Klimek, 2015). The restructuring of the Nordic retail markets, with increasing collaboration and growth, are attracting interest of financial players (Almås, 2013). The next section analyses three cases that exemplify financialisation in the Norwegian agri-food sector. We ask to what extent these Private Equity buyouts are examples of a specific Norwegian variety of agri-food financialisation.

5. Analysis: Private Equity capital in Norway's agri-food chain

Private Equity buyouts in the Norwegian food industry have so far been considerable, granted that the market is small and also granted that some of the buyouts actually took place in direct competition with the agricultural cooperatives. In 1998 Private Equity house Reiten & Co invested in the Norwegian meat company SPIS Grillstad, and in 2005 CapMan invested in the Norwegian poultry industry with the establishment of Cardinal Foods. Both investments were undertaken in direct competition with the farmer cooperative Nortura. In 2009 the Nordic brand

platform Scandza, which is backed by Private Equity houses Lindsey Goldberg and CapVest, acquired the dairy company Synnøve Finden and with this established a duopolistic competition in single categories against the farmer cooperative Tine. In 2008 the Private Equity house Herkules acquired the snacks company Estrella Maarud from Kraft Foods (Mondelez). Finally, the frozen food company Findus was acquired by Lion Capital in 2008.¹ In the following section we analyse three contrasting cases of Private Equity transactions in the Norwegian agri-food chain. The first is the Cardinal Foods investment which exemplifies the consolidation of Norwegian poultry. The second is the Nordic brand platform Scandza that, with the help of Private Equity capital, developed a Norway based brand house across the Nordic food markets. The third case is the Estrella Maarud acquisition which exemplifies the consolidation of a single brand. Our cases have been embedded in different institutional arrangements and exemplify different investment strategies. What they share, we argue, is that they took place in a context of institutional complementarities since the 1990s, just as market protection was expected to undergo further liberalisation.

5.1. Case 1: Cardinal Foods, consolidation of Norwegian poultry

Starting in 2005 the Nordic Private Equity house CapMan invested in Norwegian poultry by establishing Cardinal Foods AS. This is a holding company within the market for poultry and egg. Smaller business units have been acquired: Norsk Kylling, Arne Magnussen, Jærkylling, Den Stolte Hane and Vestfold Fugl. Until then, the market for poultry had been dominated by the farmer cooperative Nortura² with a market share of up to 70 per cent (Borch and Stræte, 1999). Each of the smaller companies had not really been able to challenge its bigger competitor. In 2013, CapMan sold its holdings in Cardinal Foods to the London based company CapVest and the Swedish Lantmännen who developed the Scandinavian poultry manufacturer ‘Scandi Standard’. According to Cardinal’s annual rapport 2010, the company had reached a market share of 44 per cent (poultry) and 33 per cent (Eggs). In the official announcement of CapMan’s exit in 2013, the company states that “the transaction contributes €3.7 million in cash flow to CapMan

Group”.³ This buyout is an example of structural consolidation in the whole Norwegian poultry market. Table 2 shows Cardinal’s structure in 2013.

Table 2 about here

The Cardinal Foods case indicates a clear growth goal at the expense of the dominating agricultural cooperative Nortura. Synergies and economies of scale had been developed between the companies acquired and were very central motives for the transactions undertaken in the run of CapMan’s buyout. This consolidation started with a few smaller companies in the Norwegian market and resulted in the establishment of the biggest Nordic poultry manufacturer Scandi Standard through the exit of CapMan in 2013. As for improvement of economic performance, Cardinal Foods centralized management functions and invested in capacity and efficiency. Our data indicate that Cardinal’s growth strategy always had a Norwegian perspective without foreign ambitions.

As for the typical characteristics of markets for Private Equity buyouts, there was, first, a positive industry trend for poultry and egg in Norway. Norwegian consumption of chicken was lower than in other European countries (Cardinal’s annual report 2009) and there has, since 2000, been a sharp increase in consumption from 8,3kg to 22,3kg per capita in 2014 (Totalmarked Nortura). Cardinal Foods therefore could benefit from both real growth in the market and taking shares from the main competitor. Second, national import restrictions set entry barriers to the Norwegian food market. Together, the two competitors had a market share of about 90 per cent. This also limits the chances that foreign competitors enter the market.

With the entry of a private actor competing with the nation-wide organized farmer cooperative Nortura, the Cardinal Foods buyout also had a political dimension. Two years after the buyout (in 2007), poultry was removed from the specific Norwegian target price system (point 3). The domestic market was liberalized, but import restrictions sustained. Still, our interview data

indicates that CapMan considered the Cardinal Food buyout as a high-risk investment due to the political risk:

“No, no (...) this investment is much more risky than most other of our other investments. This is a high-risk investment.» (CapMan representative)

According to CapMan, three specific factors influence their evaluation of political risk. First, there is risk due to varying customs protection. Customs protection, which kept foreign competition out, might have been removed during the buyout. However, according to representatives from CapMan, poultry production is largely automated. Thus, Norwegian labour costs did not play any crucial role and Cardinal Foods could thus be competitive internationally due to automated production plants. Second, CapMan considered its main competitor Nortura as a company with political power due to historically developed networks within Norway’s agricultural sector. Third, the Norwegian retail market is concentrated and trade restrictions delimit poultry production to the national arena. The operative restructuring of Cardinal Foods was thus solely depending on the entry to national supermarket shelves.

In sum, we argue that complementary transformations since the 1990s attracted Private Equity capital to the Norwegian poultry industry. CapMan could benefit from changing consumption patterns and real market growth. The market structure was spilt between the cooperative and a few competitors who could be targeted for buyouts. WTO liberalisations on the one hand, together with the development of a national market for Private Equity are independent, but complementary, transformations that made poultry an attractive target for Private Equity capital.

5.2. Case 2: Scandza, building a Nordic brand house

Scandza is a Nordic brand platform backed by Private Equity capital. The company is based in Norway but has also subsidiary companies in the Baltic countries. Scandza is a holding company with an investment focus on Nordic brands. Like CapMan, Scandza invested in direct competition with a nation-wide organized farmer cooperative, but this time the giant dairy cooperative Tine.

The private dairy Synnøve Finden was the target company. Scandza was established in 2007 by two well experienced food industry managers and was first backed by the US based Private Equity house Lindsey Goldberg. In December 2013, CapVest Private Equity, which also invested in Scandi Standard (point 5.1), acquired a 70 per cent majority in Scandza. Both managers stepped equity stakes up to 30 per cent.⁴ According to the public debate around the Synnøve Finden buyout in Norway, Scandza is perceived as a Private Equity investment into dairy. It is, however, more correct to perceive Scandza as a brand house with focus on building a portfolio of Nordic brands. The dairy investment is thus part of a much broader strategy and differs from usual Private Equity buyout characteristics. The investment horizon is not restricted to a seven-year period, and management focus is more on building a brand portfolio than on operative performance in the short term. Representatives of Scandza informed that:

“Scandza is a company that invests in the Nordic food industry. We have specialised on food companies. We have also stated that we only invest in large scale categories. Dairy is big, beverages are big, snacks are big, cakes are big. Those are the categories where we are” (Representative Scandza)

This Private Equity backed investment in the Norwegian food industry contrasts with the other two cases discussed in this paper. Scandza’s acquisitions represent a brand portfolio strategy. Such a strategy requires focusing on synergies between these brands. Table 3 presents the present portfolio of Scandza.

Table 3 about here

According to the Nielsen report 2012 (Nielsen, 2012) beverages, dairy (cheese) and snacks are among the top ten categories in the Norwegian market for fast moving consumer goods. The brand portfolio strategy of Scandza is similar to those of the bigger brand houses like Nestlè, Unilever or the Norwegian company Orkla. Leading brands generate higher returns than raw produce, such as milk, due to added-value mechanisms.

Brand portfolios allow for either extension of a single brand or diversification of different brands under the umbrella of the portfolio. (Barwise og Robertson 1992) Scandza illustrates a common

trend in global food industries: the acquisition of well-functioning brands. These allow for synergies on the marketing level and take advantage of consumer loyalty, which push bargaining power against the dominating supermarkets (Burch and Lawrence, 2007). Similarly with the poultry buyout discussed above, the Scandza case also illustrates investments into direct competition with the farmers' cooperatives. Those parts of the portfolio that are placed in the agricultural industry are perceived as being exclusively Norwegian business cases due to trade restrictions set by the government. The Norwegian dairy investment therefore also indicates a duopolistic growth strategy challenging the cooperative sector. The latter interpretation is supported by a representative of Scandza who said that:

“The investment is a Norwegian investment and we do see opportunities (...) to grow inside a very large market with only one competitor. We need only to be better than Tine.” (Leader of the company)

Scandza takes into account the political dimension of milk, which is at the very centrepiece of the Norwegian model of agriculture. Milk is included in the target price system and there is thus no competition on the input of raw milk, only on efficiency at the processing level. This is in contrast to the poultry buyout, where the Private Equity investor had to collaborate with farmers. Entry barriers to foreign competitors are again a main strategic motive behind the investment, given that the domestic market for cheese is split between the two companies (Tine ca. 85 per cent and Synnøve ca. 15 per cent).

In sum, we argue that the Scandza buyout of Synnøve Finden is tightly connected to the restructuring of the Norwegian agricultural model. High Norwegian labour costs in milk production do not play any role since price formation is negotiated on an annual basis. Well-functioning brands, entry barriers against foreign competitors and top-ten categories in the market are again central motives for the investments.

5.3 Case 3: Estrella Maarud AS, the consolidation of a single brand

In 2008, the Oslo based Private Equity house Herkules acquired Estrella Maarud AS, a manufacturer of salted snacks, from Kraft Foods (Mondelez). Until then Estrella Maarud had not been a separate company, but one of several Nordic brands integrated into the portfolio of Kraft Foods. In 2014, when Herkules sold Estrella Maarud to the Germany based Intersnacks Group, the company was reorganized in the Nordic markets with “brands such as Maarud (number 1 in Norway), Estrella (number 1 and 2 in Sweden, Finland and the Baltics) and Taffel (challenger in Denmark).”⁵ Estrella and Maarud are traditional brands in their respective markets which, according to the Herkules representatives, were underperforming under the umbrella of the much broader portfolio of Kraft Foods. Herkules acquired brand properties and three production plants in the Nordic countries. Employees were included in the transaction and were integrated in the new company. When Estrella Maarud was sold to Intersnacks Group in 2014, the company had the following structure:

Table 4 about here

According to official announcements, the transaction was divided into three stages. The first (2008-2009) established Estrella Maarud as a standalone company. This was a comprehensive process organized by the Herkules management which is well-experienced in the Norwegian food market. The second step (2009-2011), aimed at re-establishing profitability through innovation, brand development and efficiency improvements. Herkules invested 20 billion NOK in Norwegian production facilities and employment rose by 18,5 per cent before the company was sold to Intersnacks Group in 2014. The third step (2011-2014) focused on top-line growth enhancing gross sales and gross revenues. This investment clearly exemplifies a Private Equity transaction between two bigger brand houses (Kraft Foods and the Intersnacks Group). The characteristics of this acquisition are therefore strong and well-known local brands, favourable industry trends in the snacks-market and the potential for enhancing economic performance as a

single company. In addition, the snacks category is in the top-ten group in the Norwegian market that has sustainable market growth (Nielsen, 2012).

The Estrella Maarud case differs from the other two cases discussed in this paper since it only has loose connections to the Norwegian agricultural sector. Competition in the Norwegian snacks market is split between three main companies, that is Kims (owned by brand house Orkla) and Sørlandchips (owned by brand house Scandza) and finally Estrella Maarud. The concentration ratio 3 (CR3), which indicates the market share of the three dominating competitors in a market, was about 75 per cent in 2012. This signals well-functioning competition and is a sharp contrast to competition in the poultry and dairy examples above.

This buyout also has a political dimension, but of minor importance for this particular case. Norwegian potato chips depend on potatoes produced in Norway, even though potatoes also are protected by import restrictions. As in the Cardinal Foods buyout discussed above, customs protection of potatoes might have been removed during the transaction period. But Estralla Maarud's Norwegian snacks production is highly automated, and labour costs therefore did not play any crucial role according to the investor. Entry barriers are given naturally since voluminous packaging makes large scale potato chips production a "local" business due to high transportation costs.

In sum, we argue that this case most clearly illustrates the internationally known trend of Private Equity investments in the agri-food industries. This is a case of revitalizing an underperforming single brand. Snacks are, again, among top-ten categories in the market and there has been a favourable industry trend with sustainable growth rates. Entry barriers are given naturally in this case and were considered strategically by the Herkules management. Import protection does, also for this case, correlate with highly automated production facilities, enabling Estrella Maarud to be competitive even in case of international trade liberalization.

6. Conclusions: Financialisation or commodification of Norwegian food?

Since the late 1990s Norwegian and Nordic Private Equity capital have been deeply involved in the restructuring of the Norwegian agri-food chain. Based on analysis of the most significant Private Equity buyouts in the Norwegian agri-food industry we argue that we have witnessed a specific Norwegian variety of agri-food financialisation, which we relate to complementary transformations in the Norwegian model of coordinated capitalism. Employing the concept of market-organising institutions that regulate Polanyi's (1944) fictitious commodities labour, capital, and natural resources, we integrate agriculture and food into the Norwegian model of capitalism. We argue that Private Equity capital has targeted the Norwegian agri-food chain since the late 1990s because of complementary transformations in all the three market-organising complexes (L-, C-, NR-). These transformations took place independently, but appear as complementary mechanisms that explain why finance capital and Norwegian agri-food fit well together in that specific Norwegian 1990s context.

The Norwegian capital market (C-complex) was liberalised and integrated globally in the 1990s. A Norwegian market for Private Equity capital has developed with a specific focus on the domestic market as well as the Scandinavian neighbouring countries. WTO liberalisations since the 1990s have impacted on Norwegian agri-food (as part of the NR-complex) and Norway was since then forced to limit the specific domestic target price system. The target price system secures the farmers income equation (L-complex) and is at the heart of the Norwegian model of agriculture. At the same time, the agri-food systems of the Scandinavian neighbouring countries were integrated into the much bigger single EU market, a process that logically resulted in comparative disadvantages in productivity and economies of scale within the protected Norwegian market. We argue that these transformations explain why the Norwegian agri-food sector since the 1990s is attracting Private Equity capital.

The three empirical cases analysed in this paper enable us to suggest some generalisations on Private Equity in the Norwegian context. First of all, favourable industry trends with real market

growth or duopolistic growth opportunities (in which one of the dominating cooperatives are challenged), emerges as one important explanation for the investments. Second, Private Equity strategists focus on top-ten categories in the market, i.e. those with bigger sales volumes. Third, our data indicate that entry barriers protecting the Norwegian market are of particular interest since they reduce and restrict import competition. Fourth, an important point relates to the fact that investors mention highly automated production facilities as an important means to avoid high Norwegian labour costs and to meet international competition in the future. Fifth, the maintenance of well-known local brands is a characteristic that make an agri-food company an attractive target of Private Equity capital.

We contribute to the international debate on the financialisation of agriculture and food by pointing out that future research need to specify the context in which financialisation processes take place. Periodisation of finance capital involvement, which in our study is institutional transformations since the 1990s, is an equally important point to contextualise financialisation processes. Literature on the financialisation of agri-food already contains a latent contextualisation between the global south and global north. Further comparative and contextualised research is required to develop a better understanding of the many folded dimensions of finance capital involvement in the agri-food sector across the globe. In our case we define the Norwegian model of capitalism since the 1990s as the context within which the specific Norwegian variety of food-financialisation evolved. We characterise this variety of financialisation in the agri-food chain as “Norwegian” due to the following conditions: At the heart of the Norwegian model of agriculture we identify some basic ‘non-capitalist’ institutional mechanisms. Annually negotiated target prices and the nation-wide organised cooperatives with market regulating authority are mechanisms that nationalise and de-commodify (Polanyi 1944) food and natural resources. Since the 1990s we have witnessed an ongoing process of commodification of the Norwegian agri-food chain, but some of its components had not yet undergone capitalisation. Hence, Private Equity capital invested in markets with strong ‘non-capitalist’ elements. Commodification and financialisation, which usually belong to differing

periods in capitalist history, go hand in hand in this specific Norwegian context. The Norwegian model of capitalism is characterised by institutions facilitating a high degree of cooperation between labour and capital. Private Equity investments in the Norwegian agri-food chain are similar to typical industry investments in efficiency and productivity. Private Equity investors often are well-experienced food industry managers that cooperate with labour unions and follow systems of governance that restrains negative social, economic and environmental externalities. The Norwegian agri-food market is small in size. Based on these components we argue that these Private Equity buyouts placed in the centre of the Norwegian model of agriculture, demonstrate a process of agri-food financialisation with a Norwegian flavour, one that can be distinguished from the dominating perceptions of financialisation.

7. Endnotes

¹ There were also an attempt by KKR to buy the Norwegian company ORKLA in the early 2000s. This did however fail (see Almås 2013)

² There has also been a consolidation on the side of the farmer cooperatives in 2006.

³ ([www.capman.com/announcement 6/11/2013](http://www.capman.com/announcement/6/11/2013))

⁴ According to news media

⁵ Announcement by Herkules (24.05.2014), www.herkulescapital.com (accessed 08.01.2015)

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Table 1

Export-import ratio of the NR-complex; 1992 - 2012

	1992	1997	2002	2007	2012
Agriculture	0,09	0,13	0,07	0,04	0,04
Forestry	0,47	0,17	0,15	0,27	1,39
Fish, aquaculture	6,99	6,22	6,34	30,86	22,38
Oil and gas	98,56	107,82	272,27	92,61	100,10

>1 trade surplus / <1 trade deficit

Table 1: The Norwegian natural resource complex (Source: Statistics Norway, own illustration)

Table 2

Cardinal Foods AS:	Categories	Country
Norsk Kylling	Poultry	Norway, sold to retailer Rema 1000 in 2011/2012
Arne Magnussen	Eggs	Norway
Jærkylling	Poultry	Norway
Den Stolte Hane	Brand & marketing	Norway
Vestfold Fugl	Poultry	Norway

Table 2: Structure of Cardinal Foods in 2013

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Table 3

Scandza AS:	Categories	Country
Scandza Drikker	Beverage	Nordic
Synnøver Finden	Dairy	Norway
Sørlandchips	Snacks	Norway
Bisca	Cake	Nordic
Finsbråten	Meat	Norway (takeover announced 29.09.2014)
Brödrena Nilsson	Gourmet foods	Sweden

Table 3: Structure of Scandza in 2014

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Table 4

Estrella Maarud Holding AS:	Categories	Country
Maarud	Snacks	Norway
Estrella	Snacks	Sweden
Estrella Brands	Snacks	Sweden
UAB Estrella Baltics	Snacks	Lithuania
Estrella	Snacks	Finland

Table 4: Estrella Maarud Holding in 2014