

Oil palm contract farming improves quality of life for family farmers in the Brazilian Amazon?



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“Actions developed should encompass the livelihoods of family farmers and consider them not only as palm oil producing agents”

Introduction

The recent expansion of oil palm cultivation in Brazil as an alternative energy, income-generating and livelihood strategy. This reflects an international trend where today oil palms occupy 20% of all permanent cultivation in the world and oil palm cultivation is expected to double or triple by 2050 (Overbeek 2017). In South America, Colombia, Ecuador and Brazil stand out as principal palm oil producers. In these countries, corporations dominate the production chain, where large areas of monocultures coexist with small to medium-sized plots belonging to smallholder farmers who have different contract arrangements to supply fresh fruit bunches.

In Brazil, oil palm agribusinesses have caused many controversies. On the one hand, according to investors' official discourses, oil palms are a valuable investment for alternative energy, combating climate change through reforestation and reducing the use of fossil fuels through biodiesel adoption, with the added benefit of reducing oil prices. Moreover, palm oil has a competitive price when compared to bioethanol from soybeans, considering the quantity produced per hectare. Production is also considered an opportunity to generate jobs, making local economies more dynamic.

On the other hand, a more critical analysis points to processes of land grabbing by foreign corporations, and specifically to land privatization justified on the grounds of environmental sustainability which intensified in Brazil beginning in 2000 (Backhouse 2013). Others point to problems with sanitation, water contamination, and reductions in biodiversity (e.g. Vilmar et al. 2014; Lees et al. 2015). The livelihoods of those who depend on natural resource use in areas now occupied by monocultures, or on those adjacent to oil palm plantings,

are also transformed, if not undermined, within this changing context.

Oil palm in Pará state

Oil palms have been cultivated for decades in Pará state, Brazil. Production was incentivized by public subsidies from the National Program for Oil Palm Production and Use (PNPB) since 2004, and the Sustainable Oil Palm Production Program (PSOP) since 2010. These initiatives officially introduced a new production model based within which the central participants are farmer representative organizations, farmers, oil palm company associations and government institutions. Despite these new initiatives, empirical evidence shows that the number of family farmers integrated into agribusinesses in Amazonia is lower than predictions, while the model does not appear to operate as forecasted.

Considering disproportionalities between expectations and reality, the analysis of farmer perceptions was shaped by how the expansion of oil palm expansion, in response to growing global demand, involved land concentration and occupation by foreigners. The notion of 'improvement of life' was assessed from semi-structured interviews with 122 family farmers who had signed production contracts with agribusinesses in three municipalities in Pará, the largest oil palm producing state in Brazil.

Farmers who produce oil palm under contract are predominately men (91%), have an average age of 48 years, most (85%) have legal access to land up to 25 ha, while the other 15% cultivate oil palm on land conceded by family members, acquired through occupation and then regularized through agrarian reforms. Traditionally, cassava production

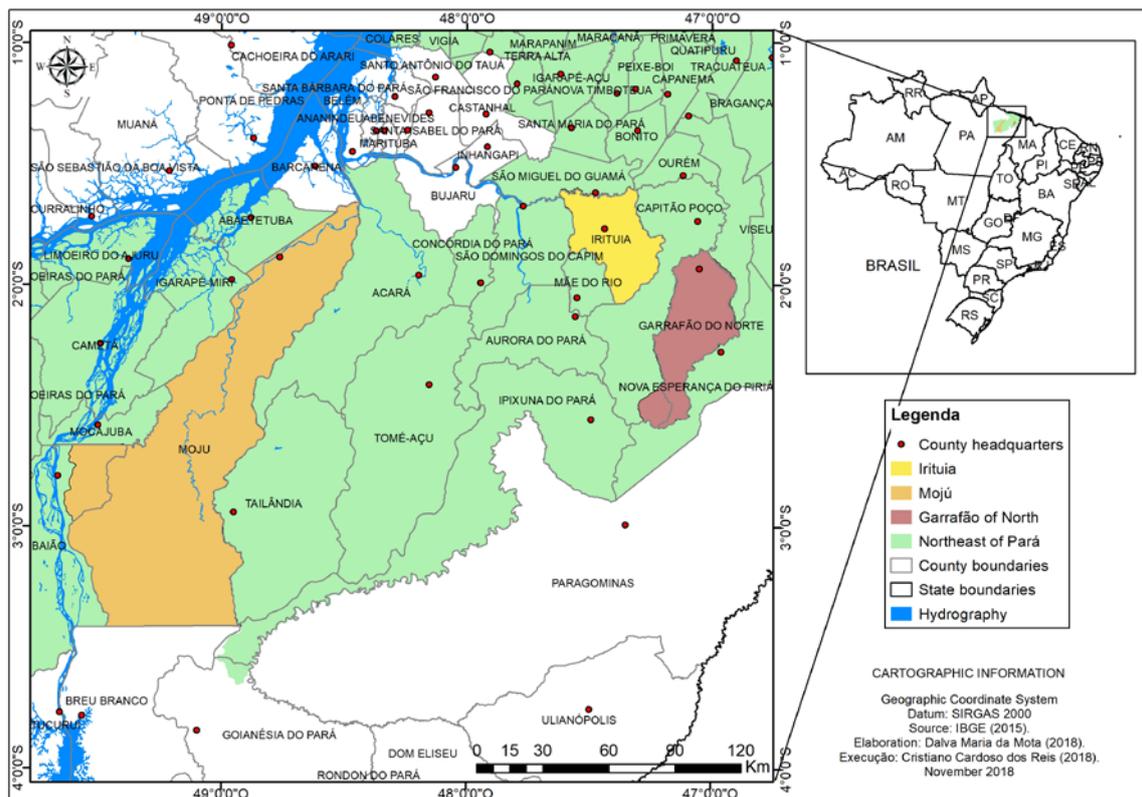


Figure 1- Map showing municipalities where the research was conducted

represented the primary economic activity, whereas more recently, oil palm has become a part of household production. Kinship relationships, along with those of neighbours and religious groups, structure social and political organizations.

A contract between those with unequal powers

The integration of smallholder family farmers into palm oil production in Brazil began in the early 2000s, in Moju municipality, Pará state. The first initiative was incentivized by a company stimulated by the Novo Para (New Pará) Project funded by the state government to support business development. Following this, the federal government created two public policies that subsidized and consolidated the expansion of oil palm. These were PNPB to stimulate biodiesel production on a national level; and PSOP to offer more structural support to produce oil palm, such as agroecological zoning of lands suited to the crop. And a specific line of credit called Pronaf Eco Dendê was also established to support family farmers

who chose to take up palm oil producing contracts.

Even though biodiesel production did not become important in Pará because production was destined for food and drug markets, areas of oil palm cultivation expanded to 31 municipalities through the installation of national businesses and multinational companies in the region. Approximately 1,508 families became integrated into these companies, representing 20% of all planted area, totalling 207,000 ha (Brandão and Schoneveld 2015). Even though both farmers and agribusinesses approve of such contracts as they jointly come to agreements meeting both their interests and expectations. However, farmers also have their suspicions for signing contracts. Both are presented below.

During interviews, of the various reasons for signing contracts, economic motives stand out. These are particularly related to hopes of increasing earnings, and having easier access rural credit, something which is difficult to achieve with any other crop. Another set of motives is related to being

able to cultivate on newly available lands, thus securing work opportunities for farming families and allowing them to continue as farmers. Other motivations include unsatisfactory earnings and crop health

problems aggravated by a lack of technical assistance when cultivating other crops. Nearly 90% of interviewees had just one contract, with 10% having two contracts and is a single register of three contracts.

Table 1: Reasons farmers cited for signing contracts to cultivate oil palm

Nature	Reasons	No. of farmers	(%)
Economic	Secure market	85	74%
	Expectation of good earnings	85	74%
	Guaranteed financing	61	56%
Opportunity	Desire to try something new	34	34%
	Land availability	27	25%
Production system	Unsatisfied with previous agricultural earnings	25	22%
	Lack of alternatives	16	13%
	Degraded soils	15	14%
	Less arduous work	14	11%
	Diseases in cassava crops	12	10%
Other	Other reasons	46	35%

Research showed that 48% of farmers knew little about the details and conditions in their contracts, but still hoped to improve their livelihoods. Regarding compliance of company and farmer responsibilities as described in contracts, 19% of farmers were very satisfied, 28% satisfied, 39% unsatisfied, and 14% very unsatisfied. Those most satisfied cite the benefits from year-round income earnings from harvests every 15 days, guaranteed markets, and greater access to services (credit and technical assistance). In contrast, those unsatisfied mention delays in receiving agricultural inputs, transportation costs and the low price paid for fruits, as reasons for their discontentment. Very unsatisfied farmers describe a significant increase in work and non-achievement of expected economic benefits, and express outrage as they have to use resources from other activities to pay oil palm debts, especially annual loan payments.

Did life improve after the contract?

One of the purposes of PNPB in Brazil is improved social inclusion, which within the programme is related to economic aspects, specifically to increasing rural earnings. Using a broader vision is the

notion of ‘improvement’ as expressed by farmers to address their own perceptions of earnings and how each feels as an oil palm producer. Data showed that 72% of farmers have a positive self-perception related to being oil palm producers. However, the positive perception related to earnings was notably lower (55%), indicating that satisfaction with integration was expressed less when based on this objective indicator.

Using a combination of these two perspectives, four sub-groups became apparent.

- i. Satisfied as producers and with earnings (53%).
- ii. Unsatisfied as an oil palm producer and with earnings (25%).
- iii. Unsatisfied particularly with the ‘feeling’ of being an oil palm producer (19%)
- iv. Did not respond (3%)

Data analysis on satisfaction with earnings showed that farmers who have been contract farmers for longer, borrowed less money, and have plantings at peak production; these are also the farmers that are most satisfied with their earnings. These data, however, demand further attention given that all farmers from Irituia



Oil palm fruits to be collected by the enterprise (point of concentration). Photo by: Heribert Schmitz

and Garrafão do Norte and half those from Moju are not yet in a position to repaying their loans. When repayments begin, satisfaction levels will probably change. This calls into question the adequacy of the model and its ability to improve the lives of contract farmers. A few farmers expressed their different perceptions on their experiences with oil palm contract farming.

“Here in this municipality, I don’t see any better crop because this one has no end. Every month it puts money in our pockets, even if it’s just a little bit, it gives. Pepper provides from year to year, and cassava, well, you plant it [and harvest it] and then it’s just the soil, it’s all gone.” Mr Tocantins, July 2017.

“It is one of the best projects that appeared for farmers. My father was a farmer and I have been a farmer for a long time. You plant cassava, the cassava flour is doing well, and then when you’re not paying attention, prices fall. So, then you make many sacks and cannot find a buyer. Oil palm has this advantage. I plant, and I like it.; I don’t have anything bad to say.

If it were to plant more, I would.” Mr Tefé, May 2016.

“All the work that goes into oil palm plantings, we have been doing for nothing and it is very bad. I am realizing that it is better for us to earn just a little bit, but at least you can earn a little rather than work a lot and in the end work for nothing.” Mr Trombetas, July 2017

Notwithstanding the different satisfaction levels between the groups, they had similar perceptions on contract farming as a new means of production. Most were unsatisfied with the lack of government incentives that would allow investments in other crops more worthwhile, principally cassava or other perennials. With few alternatives, pursuing oil palm cultivation becomes one of few possible means for improvement, with feelings of improvement based on the fact that the crop has a guaranteed market and allows for a relatively regular income every 15 days, and access to credit.

In this way, farmers also consider that the recognition they receive as contract producers is an improvement. Contract



Young farmers weeding palm oil plantation. Photo by: Márcia Coutinho Caetano

agreements open other avenues once closed to them, such as rural financing, making it possible for them initiate their plantings, credit availability often made possible by public authorities who support oil palm initiatives. In summary, this data should be analyzed relative to the deprivations that farmers have historically faced, as most opted to plant oil palm in the hope of improved earnings, supported by rural credit. These decisions were made within the context of great public support for this crop, which benefited from prioritized resource allocation.

Conclusions

This paper presented cases of family farmers who signed contracts with agribusinesses to produce oil palm in the northeast of Pará state, Brazil. These initiatives were funded by public policy programmes to diversify national electricity production, and a secondary goal of promoting social inclusion. For farmers, signing contracts was motivated by economic factors such as freeing themselves from market and income instability, being able to access rural credit,

and the opportunity to engage in a new activity following difficulties encountered with previous production systems.

After 14 years of PNPB and eight years of PSOP, most farmers feel their lives had improved, based on greater earnings and how they feel about being palm oil producers. Nonetheless, some remained unsatisfied, basing their feelings on dissatisfaction with contractual clauses, low income relative to labour inputs, and fear of not being able to repay their debts.

Within the context in which governmental initiatives are directed towards and give priority to palm oil production, many families considered integration into agribusinesses as the only way to improve their lives. But, credit obtained to establish oil palm plantings is not yet being repaid by most farmers, and so, based on data and farmer perceptions, the capacity of these initiatives to improve the lives of all farmers is questioned. In conclusion, the model shows a tendency to intensify social differentiation between farmers, with risks of impoverishing a significant segment of smallholders.

Recommendations

The proposed set of recommendations must necessarily involve the representations of family farmers, state and companies. Importantly, the actions developed should encompass the livelihoods of family farmers and consider them not only as palm oil producing agents. In face of scenarios of budget constraints, recommendations are very low cost and are easy to operationalize.

- ▷ Organizations representing family farmers must have greater engagement in issues related to the contracts, to better mitigate disagreements, misunderstandings and conflicts that ultimately affect the satisfaction among family farmers.
- ▷ Companies must provide, regularly, transportation of harvested palm oil fruits and delivery of inputs.
- ▷ Maintenance of a clear and effective information channel to companies and banks about family farmers' financial situation (expenses and revenues)
- ▷ Execution of initiatives for adding value to palm oil fruits in the family farm itself, aiming at broadening the market possibilities, especially in cases in which the contract was interrupted.
- ▷ Incentives to the diversification of activities in farms and permission to intercropping in the first three years.
- ▷ Specific action towards family farmers who experience difficulties, through exchange programmes with those in better situations or who get more technical assistance.

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This paper was submitted for inclusion in the forthcoming edition of **ETFRN News 59 - Exploring inclusive oil palm production**, due for release in early 2019. This will contain 20 papers plus interviews, presenting examples of innovative and inclusive palm oil production systems. It will assess what has not worked, but importantly, it will analyse what positive practices and policies have worked for more inclusive palm oil production and why, as we strive towards more collective and sustainable solutions to this apparently intractable problem.

This paper will undergo final editing prior to publication of the complete edition, and as such, could differ from the version presented here.

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Cover photo: Farmer prepares weeding. Photo by: Márcia Coutinho Caetano



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