2.2 Exploring inclusivity with the United Nations model in the Peruvian Amazon

Juan Luis Dammert

“OUR OBJECTIVE WAS TO MAKE THE TRANSITION FROM FARMERS TO INDUSTRIALS, WHERE THE REAL BUSINESS IS.”

Introduction

Palm oil is not a large industry in Peru, and the crop is far from being a main driver of deforestation (MINAM 2016). Oil palm occupies some 90,000 hectares, or approximately 0.1% of the Peruvian Amazon. This is the only region in the country that meets the biophysical conditions for oil palm to grow. Approximately 59% of the planted area is under small- and medium-scale forms of production, with 41% under large-scale corporate plantations. Among small- and medium-sized producers is a group that resulted from projects to replace coca and that grow on 30,947 ha (36% of the total area), while other producers and investors have entered without the support of alternative development projects with 19,566 ha (23%) (JUNPALMA 2018). There are two corporate investors, the domestic Grupo Palmas (with 25,672 ha or 30% of the total large-scale area), and the transnational Ochosur with 10,040 ha (11%) who also had previous experience with plantations in Malaysia.

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Alternative development projects were particularly active during the 1990s and 2000s. They gave rise to the United Nations model, named after the close involvement of the United Nations Office on Drugs and Crime (UNODC) in promoting oil palm as an alternative to coca production. Coca farmers who were willing to shift to other crops such as coffee, oil palm or cacao were targeted for support. Although the presence of coca in project areas is a condition for alternative development support, it is important to note that the beneficiaries of these programmes are not all former coca growers. Programmes have been implemented in various areas, involving a range of approaches, priorities, donors, crops, staff and authorities.

These alternative development projects consisted of support for the creation of producer associations and providing funds so associations could build and run processing mills. With oil palm, variations in terms of seed quality, agricultural practices, growth rates, size and technology used in the processing mills result in differing yields and profits.

Over time, the representatives involved in associations become social leaders and experts in looking for new projects and business opportunities. To date, there are five United Nations model-type mills producing palm oil in Ucayali, Loreto and San Martín regions, with processing capacities of up to 30 tonnes of fresh fruit bunches per hour. The national federation of oil palm growers (Junta Nacional de Palma Aceitera del Peru) notes that 3,781 families are working in these associations and mills (JUNPALMA 2016). They are now the visible face of the federation and are responsible — at least nominally — for the political representation of palm oil interests in Peru.

The United Nations model is often seen in Peru as a success, with farmers increasing their share of profits by partnering with processing mills. In general terms these oil palm producers are doing better than growers of other crops in similar conditions (Zegarra and Vargas 2016). There are, however, internal and external tensions for these producers, with disputes over how to share profits between those involved in the agricultural and the industrial aspects of palm oil production, and how to navigate the stigmatization of palm oil production that has been triggered by deforestation scandals involving corporate producers. This article analyzes the inclusiveness of this model and discusses the politics of this sector in the context of the ongoing palm oil boom in Peru.

The model

There are certain historical peculiarities that explain the slow development of oil palm expansion in the Peruvian Amazon. After a few plantations developed in the 1970s, the expansion of oil palm slowed down in the 1980s and 1990s due to the rise of armed internal conflict and narco-trafficking, which coexisted with economic, institutional and political crises. Additionally, in the early 1990s economic adjustment meant a tendency for the state to withdraw from rural areas. In this context, coca cultivation started to soar. The Peruvian state, with support from the international community, intensified its alternative development strategies to recuperate Amazonian valleys where violence and narco-trafficking were gaining ground. With support from UNODC and other funders, such as USAID, the United Nations model is largely responsible for revitalizing the palm oil industry since the 1990s.

The first and most emblematic case started when UNODC partnered with the regional government of Ucayali (GOREU) in 1991 to establish 1,300 hectares of oil palm as an alternative crop. Local farmers who owned their land in the surrounding area of the Federico Basadre highway near Pucallpa were targeted for oil palm development, giving rise to the Central Committee of Oil Palm Growers of Ucayali
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(COCEPU). The committee received financial and technical assistance from UNODC and GOREU to establish plantations. To complete the project, the Peru-Canada Counter-Value Fund financed the building of a mill for COCEPU in 1996, which started producing in 1998. Oleaginosas Amazonicas (OLAMSA) was created to run the mill. The mill had 256 founding members; it was 54% owned by COCEPU as a collective entity, and 46% owned by individuals, mostly farmers belonging to COCEPU (MINAG 2001; Dammert 2017).

Legally, COCEPU is a non-profit civil association. Farmers receive cash from selling their fresh fruit bunches to OLAMSA. Those farmers — who are also OLAMSA shareholders — receive a share of company profits. However, profits are not divided between members; farmers who are not individual shareholders are paid back in kind, by receiving products or services such as seeds, nurseries, fertilizers, agricultural extension and training. This way of structuring the business is typical of the United Nations model. Table 1 shows the five most important partnerships of associations of farmers and processing mills that stem from alternative development initiatives.

Table 1. Five most important associations of producer organizations and oil palm companies

<table>
<thead>
<tr>
<th>Producer organization</th>
<th>Processing mill</th>
<th>Department</th>
<th>No. of producers</th>
<th>Area (ha)*</th>
<th>FFB produced (t)</th>
<th>Crude palm oil (t)</th>
<th>Yield (t of FFB/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COCEPU</td>
<td>OLAMSA</td>
<td>Ucayali</td>
<td>1,040</td>
<td>10,731</td>
<td>130,788</td>
<td>30,993</td>
<td>15</td>
</tr>
<tr>
<td>ASHPASH</td>
<td>OLPSA</td>
<td>Ucayali</td>
<td>570</td>
<td>4,556</td>
<td>35,177</td>
<td>9,089</td>
<td>15</td>
</tr>
<tr>
<td>INDOLMASA</td>
<td>INDOLMASA</td>
<td>Ucayali</td>
<td>55</td>
<td>1,772</td>
<td>20,565</td>
<td>4,866</td>
<td>14</td>
</tr>
<tr>
<td>ACEPAT</td>
<td>OLPSA</td>
<td>San Martin</td>
<td>1,346</td>
<td>6,559</td>
<td>75,252</td>
<td>18,500</td>
<td>14</td>
</tr>
<tr>
<td>JARPAL</td>
<td>INDUPALSA</td>
<td>San Martin/ Loreto</td>
<td>427</td>
<td>3,793</td>
<td>30,152</td>
<td>6,797</td>
<td>11</td>
</tr>
</tbody>
</table>

* This includes mature plantations and other areas not yet in production. FFB: fresh fruit bunches. Source: JUNPALMA (2018)

Note: These producer organizations and oil palm companies arise at least in part from alternative development initiatives.

Implementation challenges

Once the loans to build the mills are paid off, the prospects of profits are good, but this is the case mostly for those individuals with shares in the processing mills. This creates tensions between the agricultural (producer) and industrial (processor) components of the business. Farmers often perceive that the services they receive are insufficient and not efficiently delivered, and there have also been cases of corruption in the administration of collective funds. This has led to some farmers with no shares in the processing mills demanding that their profits should also be individualized: in cash, not only in kind.

In areas where these associations function, there are non-member farmers willing to become members of the producer organizations who are not accepted. This is either because they don’t meet the conditions for acceptance, or because the existing members are reluctant to bring in new partners. These non-members serve only as suppliers of fresh fruit bunches, with no rights to profits from the mills or to services from the producer associations. This has led to cases where excluded farmers...
organized themselves, often in partnership with members who were not fully satisfied with the administration of the business, and started their own associative mills, as with INDOLMASA in Ucayali. In essence, the full inclusiveness of the model — characterized by direct or indirect access to the profits from processing — is limited to people belonging to the producer organizations.

Next to the giant

The political economy of the palm oil industry in Peru has been shaped by the hegemony of the Romero Group, through its companies Grupo Palmas and Alicorp. Grupo Palmas owns the largest planted area of oil palm in the country and has processing and refining capacities in addition to a biodiesel plant. It is the only company with full vertical integration of production. Most of its crude palm oil is refined and transformed into end products, many of which are commercialized in the cities of the Peruvian Amazon. Alicorp, Peruvian’s most important mass-consumption food producer, buys around 85% of the rest of the crude palm oil produced in Peru, as it owns a refinery in Lima. This means that almost all palm oil in the country is commercialized by the Romero Group (Dammert 2017).

Relations between the industry’s main actors have been characterized by a combination of both collaboration and competition. Under the leadership of JUNPALMA, collaboration between actors aims to defend sector interests in crucial matters such as implementation of biofuel regulations or the approval of the national plan to promote palm oil, especially in the face of stigmatization due to deforestation scandals. Although Grupo Palmas is perceived as being monopolistic, it is taking decisive steps to reopen the biodiesel trade for domestic palm oil production, which is something that could benefit the industry as a whole.
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The distinctive component of the United Nations model is that farmers have access to the profits of oil extraction.

Photo: Thomas Mueller/SPDA

Competition has historically been based on commercial grounds. The case of OLPESA and its producer organization ACEPAT epitomizes the tensions between industrial mills and smallholders; in this case, between the United Nations model plantations and Grupo Palmas in Tocache, San Martín. OLPESA was established in 2006 in Grupo Palmas’s territory, or “right next to the giant,” as one former manager of the processing mill put it. The objective was to create access to the profits created by processing fresh fruit bunches, at a time when international cooperation funds were declining, since Peru had become a middle-income country. Although there was support through technical assistance and institutional strengthening, there were no funds from international cooperation to build a processing mill.

To obtain the investment required to build the processing mill, ACEPAT obtained a loan from the government. Individual members also obtained credit, external investors were invited, and a food processing company (Industrial Alpamayo S.A.) was brought in as strategic partner. The OLPESA mill was built on the foundations left by a bankrupted former public oil palm company (EMDEPALMA); the state transferred land previously owned by the public company to the personnel as means of compensation. Despite the extensive participation of private investors in OLPESA, ACEPAT still holds 54% of the shares, and the business structure of the company has enhanced its competitiveness. Following OLPESA’s success in Tocache, however, Grupo Palmas established a mill in the area to compete for fresh fruit bunches from local farmers. Competing with the giants is challenging and requires long-term commitment and investment.
Growing pains

Increased consumption of palm oil has allowed more players to have a share of the market, but scaling up successes is not without its challenges. In recent years, processing companies such as OLPESA and OLAMSA and other palm oil traders formed the consortium Sol de Palma to export palm oil. Their ambition is to build their own refinery and to jointly become larger players in the Peruvian palm oil trade, but that would require a significant increase in production.

Another challenge relates to the unprecedented growth in large-scale, corporate oil palm projects, some of which are linked to deforestation in the Peruvian Amazon. For example, the development of the Grupo Palmas’s Palmas del Shanusi in 2006, and the development of two projects by Ochosur since 2012, triggered a national environmental controversy. This has included accusations of criminality, media scandals and formal complaints to the state and private organizations such as the RSPO, mostly due to evidence of large-scale deforestation. This has had negative impacts on the industry as a whole, and has also harmed the reputation of the United Nations model, which is struggling to expand in the midst of scandals generated by corporate actors.

Small and medium-sized producers — the visible front of JUNPALMA — appear to be reluctant to condemn documented cases of large-scale deforestation and to distance themselves from Ochosur. The arrival of Ochosur generated high expectations from producer organizations, since they perceived that competition between corporate actors would increase flexibility in the rest of the supply chain, and counterbalance Grupo Romero’s monopolistic tendencies. But for unknown reasons, Ochosur has not yet built any mills to process fruits from their 10,000 ha of oil palm, even though the large
volume of produce could be a highly attractive business opportunity for the Sol de Palma consortium to increase production of crude palm oil and achieve their ambitions for refining and exporting.

Engagement in business with Ochosur has affected the social and environmental credentials of the mills managed under the United Model model, and malpractice by Ochosur has recently been exposed by civil society organizations (Convoca 2018), and some corporate buyers have become suspicious about the sustainability credentials of palm oil sourced from these mills and have started to demand certain conditions from sellers. Furthermore, stigmatization of oil palm in the country has complicated producer organization relationships with the government and has affected their access to financial support.

As this is an unprecedented situation, it remains to be seen how these players are going to react to criticism. Moreover, it is yet unclear what their strategies, if any, are going to be now that there is closer scrutiny as they evolve from alternative development project beneficiaries to export-oriented industrialists.

Conclusions

The United Nations model shows its potential as a sustainable and inclusive business example for palm oil production. In fact, the model can show credible success in poverty alleviation and replacement of illegal crops such as coca, as the cases of COCEPU-OLAMSA and ACEPAT-OLPESA show. The cooperative structures used by producer organizations regarding ownership of processing mills has been a crucial factor for increasing profits and alleviating poverty. In addition, participating in the industrial processing of crude palm oil from raw fruit — something not common in palm oil value chains — appears to be a simple and straightforward way to increase inclusiveness and smallholder profits. Furthermore, these plantations have largely been established in already deforested areas, although it is possible that the economic success of the model could provide an incentive for new deforestation to expand existing plantations.

For this type of business model to succeed, initial external support is required. Poor farmers in remote areas do not have the economic strength to establish oil palm plantations without access to credit and technical assistance, and they have even fewer opportunities to build processing mills without external support. The involvement of international cooperation and the Peruvian government was necessary for these projects to succeed. The distinctive element of this model — that farmers could have access to some of the profits from industrial processing — is limited to project beneficiaries, i.e., members of producer organizations. But as those already in the business are reluctant to let others enter under the same conditions, expanding the inclusiveness of the model would require creating new associative companies that would compete with the existing ones.

Economic success calls for increased investments and greater market shares, and models such as this tend to experience challenges when faced with close civil society scrutiny and corporate demands for sustainability credentials. The story of the United Nations model of palm oil production in Peru illustrates the issues associated with the transition from alternative development and poverty alleviation initiatives to successful capitalist growth. If this transition comes as a result of partnerships with questioned producers — such as those involved in large-scale deforestation scandals — the sustainability credentials of this model can easily become compromised.
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References


