Does oil palm contract farming improve the quality of life for family farmers in the Brazilian Amazon?

Dalva Maria da Mota, Heribert Schmitz, Dérick Lima Gomes and Gizele Oeiras da Silva

Introduction

Recently, oil palm cultivation in Brazil has expanded as an alternative energy, income-generating and livelihood strategy. This reflects an international trend; oil palm occupies 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 are the principal palm oil producers. In these countries, corporations dominate the production chain. Large areas of monocultures coexist with small to medium-sized plots belonging to smallholder farmers, who have a range of 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 reporting, oil
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Oil palms are a valuable investment for alternative energy, combating climate change through reforestation and reducing the use of fossil fuels through biodiesel, with the added benefit of reducing oil prices. Moreover, palm oil is competitively priced when compared to bioethanol from soybeans, considering the quantity produced per hectare. Palm oil 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. This 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). In addition, the livelihoods of those who depend on natural resource use in areas now occupied by monocultures, or on those adjacent to oil palm plantings, have been transformed, if not undermined, in this changing context.

Oil palm in Pará state

Pará is the largest oil palm producing state in Brazil. Oil palm has been cultivated for decades in the state. Production has been incentivized by public subsidies from the National Programme for Oil Palm Production and Use (PNPB) since 2004, and by the Sustainable Oil Palm Production Programme (PSOP) since 2010. These initiatives officially introduced a new production model where the main participants are farmer representative organizations, farmers, oil palm company associations and government institutions. Despite these new initiatives, however, empirical evidence shows that the number of family farmers integrated into agribusinesses in Amazonia is lower than predicted, and that the model does not appear to operate as forecast.

Figure 1. Map showing municipalities where the research was conducted
Considering the differences between expectations and reality, the analysis of farmer perceptions was shaped by how 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.

Farmers who produce oil palm under contract are predominately men (91%) and have an average age of 48 years. Most of them (85%) have legal access to land up to 25 ha, while the other 15% cultivate oil palm on land granted by family members, acquired through occupation and then regularized through agrarian reforms. Traditionally, cassava production represented the primary economic activity, whereas more recently, oil palm has become a part of household production. Kinship relationships, along with those with 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, which was 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: the National Programme for Oil Palm Production and Use (PNPB) and the Sustainable Oil Palm Production Programme (PSOP). PNPB encouraged biodiesel production on a national level, and PSOP offered structural support to produce oil palm, such as agroecological zoning of lands suited to the crop. A specific line of credit called Pronaf Eco Dendê was also established to support family farmers who chose to take up palm oil production.
Biodiesel production did not become important in Pará; production was destined for food and drug markets. Nevertheless, the area of oil palm cultivation in the region expanded to 31 municipalities through the establishment of national businesses and multinational companies. Approximately 1,508 families became integrated into these companies, representing 20% of all planted areas, totalling 207,000 ha (Brandão and Schoneveld 2015). Both farmers and agribusinesses approve of such contracts, since these contracts meet their interests and expectations. However, farmers also have their suspicions about signing contracts.

This work aimed to assess whether contract farming improved the quality of life for family farmers in the Brazilian Amazon. Interviews revealed that economic motives stand out as the main reasons for signing contracts (Table 1). These economic motives are specifically related to hopes of increasing earnings, and having easier access to rural credit, something that is difficult to achieve for 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, which are aggravated by a lack of technical assistance when cultivating other crops. Nearly 90% of interviewees had just one contract; 10% had two contracts and a single interviewee had three contracts.

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

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

Research showed that 48% of farmers knew little about the details and conditions of their contracts, but still hoped to improve their livelihoods. In terms of compliance of the company and farmer responsibilities as described in the contracts, 19% of farmers were very satisfied, 28% were satisfied, 39% were unsatisfied, and 14% were very unsatisfied. Those most satisfied cited the benefits from year-round income provided by harvests every 15 days, guaranteed markets, and greater access to services (credit and technical assistance). In contrast, those who were unsatisfied mentioned delays in receiving agricultural inputs, transportation costs and the low price paid for fruits as reasons for their discontentment. Very unsatisfied farmers described a significant increase in work and lack of expected economic benefits, and expressed outrage that they had 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 to improve social inclusion; within the programme this is related to economic aspects, specifically to increasing rural earnings. A broader vision of “improvement” was expressed by farmers to address their own perceptions of earnings and how each felt as an oil palm producer. Results 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 was expressed lower when based on this objective indicator.

Using a combination of these two perspectives, four groups became apparent:
1. satisfied as producers and with earnings (53%);
2. unsatisfied as an oil palm producer and with earnings (25%);
3. unsatisfied, particularly with the “feeling” of being an oil palm producer (19%); and
4. did not respond (3%)

Analysis of data on satisfaction with earnings showed that farmers who had been contract farmers for longer, borrowed less money, and had plantings at peak production were most satisfied with their earnings. These data, however, require further assessment, given that all farmers from Irituia and Garrafão do Norte and half of those from Moju are not yet in a position to repay 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. Three farmers expressed differing perceptions of 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 possible 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 of contract farming as a new means of production. Most were unsatisfied because of the lack of government incentives that would allow investments in other crops, principally cassava or other perennials. With few alternatives, 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, allows for a relatively regular income every 15 days, and provides access to credit.

Farmers also consider that the recognition they receive as contract producers is an improvement. Contract agreements create options once unavailable to them, such as rural financing. This makes
it possible for them initiate their plantings, often through credit made available by public authorities who support oil palm initiatives. This data should be analyzed relative to the deprivations that farmers have historically faced, since most farmers opted to plant oil palm in the hope of improving their earnings, with support from rural credit. They made these decisions within the context of great public support for this crop, which benefited from prioritized resource allocation.

**Conclusions**

This paper presents information about family farmers who signed contracts with agribusinesses to produce oil palm in northeastern Pará state, Brazil. These initiatives were funded by public policy programmes to diversify national electricity production, with 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, having access to 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 have improved, based on greater earnings and how they feel about being palm oil producers. Nonetheless, some remained unsatisfied, due to dissatisfaction with contractual clauses, low income relative to labour inputs, and fear of not being able to repay their debts.

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

**Recommendations**

These recommendations address the needs of family farmers, the state and companies. Importantly, any actions taken should encompass the livelihoods of family farmers and consider them as more than just palm oil-producing agents. In the face of possible budget constraints, recommendations are very low-cost and easy to implement.

- Organizations that represent family farmers must be more engaged in issues related to the contracts in order to better mitigate disagreements, misunderstandings and conflicts that ultimately affect the satisfaction of family farmers.
- Companies must provide regular transportation of harvested palm oil fruits and regular delivery of inputs.
- A clear and effective information channel to companies and banks about family farmers’ financial situation (expenses and revenues) is needed.
- Initiatives are needed for adding value to palm oil fruits in the family farm itself, aiming to broaden market possibilities, especially important when a contract is terminated early, or interrupted.
- Incentives are needed to diversify activities in farms and permit intercropping in the first three years.
- Specific actions are needed for family farmers who experience difficulties, through exchange programmes with farmers in better situations or with more technical assistance.

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**References**


