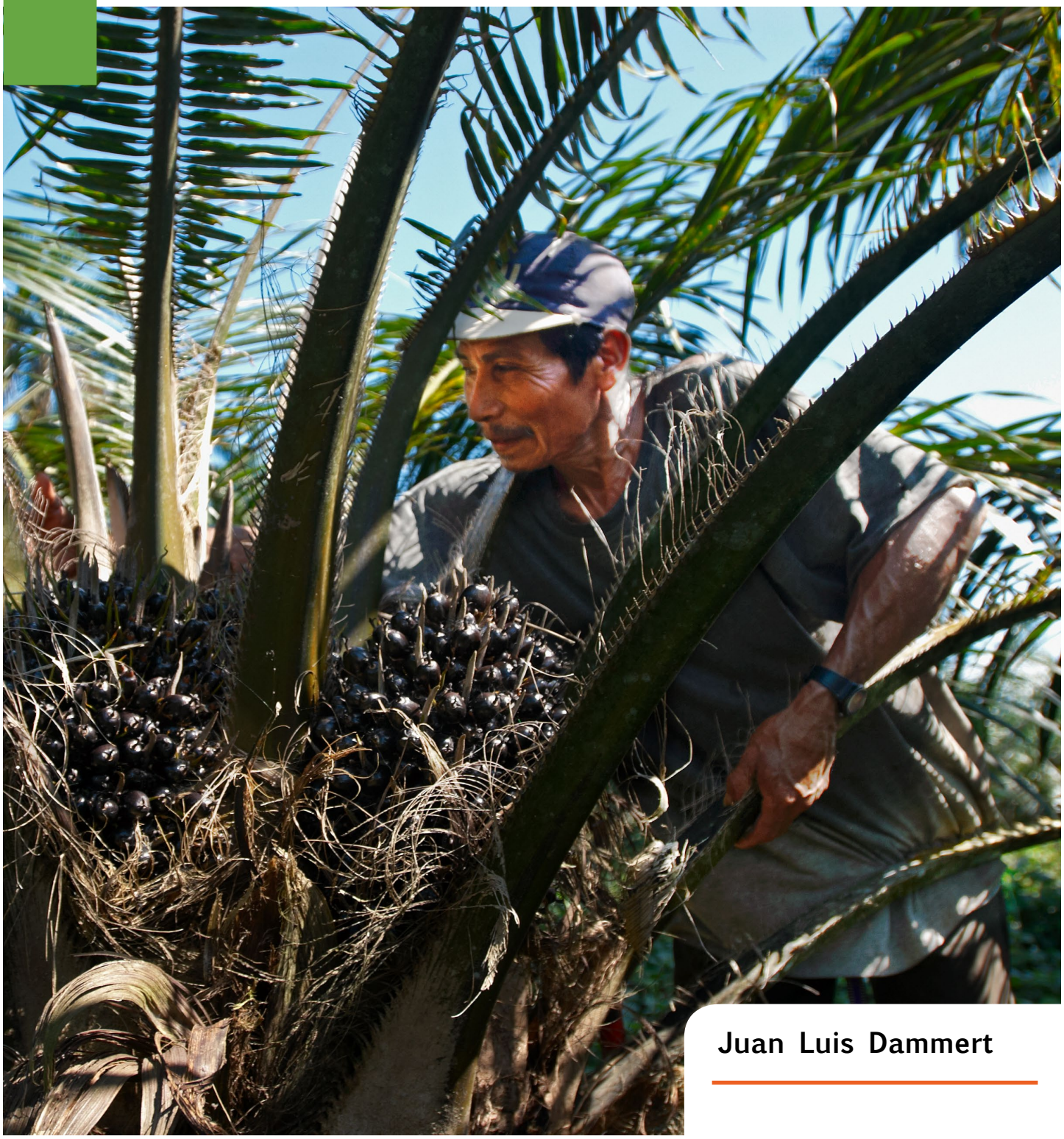
Exploring inclusivity with the 'United Nations model' in the Peruvian Amazon



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"Our objective was to make the transit from farmers to industrialists, where the real business is."

Introduction

Oil palm 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, the only region in the country that meets the biophysical conditions for it to grow. Approximately 59% of this planted area is under small and medium scale forms of production, with 41% under large scale corporate plantations. There are two corporate investors, the domestic Grupo Palmas (with 25,672 ha or 30% of the total area) and the transnational Ochosur with 10,040 ha (11%) having previous experience with plantations in Malaysia. Among small and medium sized producers is a group that emerged from projects to replace coca and that grow on 30,947 ha (of 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).

Alternative development projects particularly active during the 1990s and 2000s, gave birth 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. Though the presence of coca in project areas is a condition for alternative development support, it is important to note that beneficiaries of these programmes are not all former coca growers. Coca farmers willing to shift to other products like coffee, oil palm or cacao have been targeted for support in the past. Programmes have been implemented in different areas, involving different approaches, priorities, donors, crops, staff and authorities.

These alternative development projects consisted of support to the creation of producer associations and leveraging funds so they could build and run processing mills. With oil palm, there is variation in terms of seed quality, agricultural practices, growth rates, size and technology used in the processing mills, resulting in differing yields and profits. And those representatives involved, have over time, become social leaders and experts in looking for new projects and business opportunities. To date, there are five 'United Nations model' mills producing palm oil, in Ucayali, Loreto and San Martin regions, with processing capacities 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 there are 3781 families working in these associations and mills (JUNPALMA 2016), and 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 in how profits are shared between those involved in the agricultural and industrial parts of palm oil production, and how to navigate the context of stigmatization of palm oil production 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

Fresh fruit bunches arrive at INDUPALSA's processing mill.
Photo by: Thomas Mueller / SPDA

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 to state withdrawal from rural areas. In this context, coca crops started to soar. The Peruvian state, with support from the international community, intensified its alternative development strategies to recuperate Amazonian valleys where narco-trafficking and violence 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 United Nations Office on Drugs and Crime (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 birth to the Central Committee of Oil Palm Growers of Ucayali (COCEPU). COCEPU 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, with 256 founding members, 54% owned by COCEPU as a collective entity, and 46% by individuals, mostly farmers belonging to COCEPU (MINAG 2001, Dammert 2017).

Legally, COCEPU is a non-profit civil association. Each individual farmer receives cash from selling their fresh fruit bunches to OLAMSA. Those farmers who are also OLAMSA shareholders do receive a share of company profits. However, profits are not divided between members, as farmers who are not individual shareholders are paid back in kind, by receiving services 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 most important five partnerships of associations of farmers and processing mills stemming out of alternative development initiatives.

Table 1: Five most important associations between producer organizations and oil palm companies arising at least in part from alternative development initiatives.

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

** includes mature plantations and others not yet in production. Source: JUNPALMA (2018)*

Implementation challenges

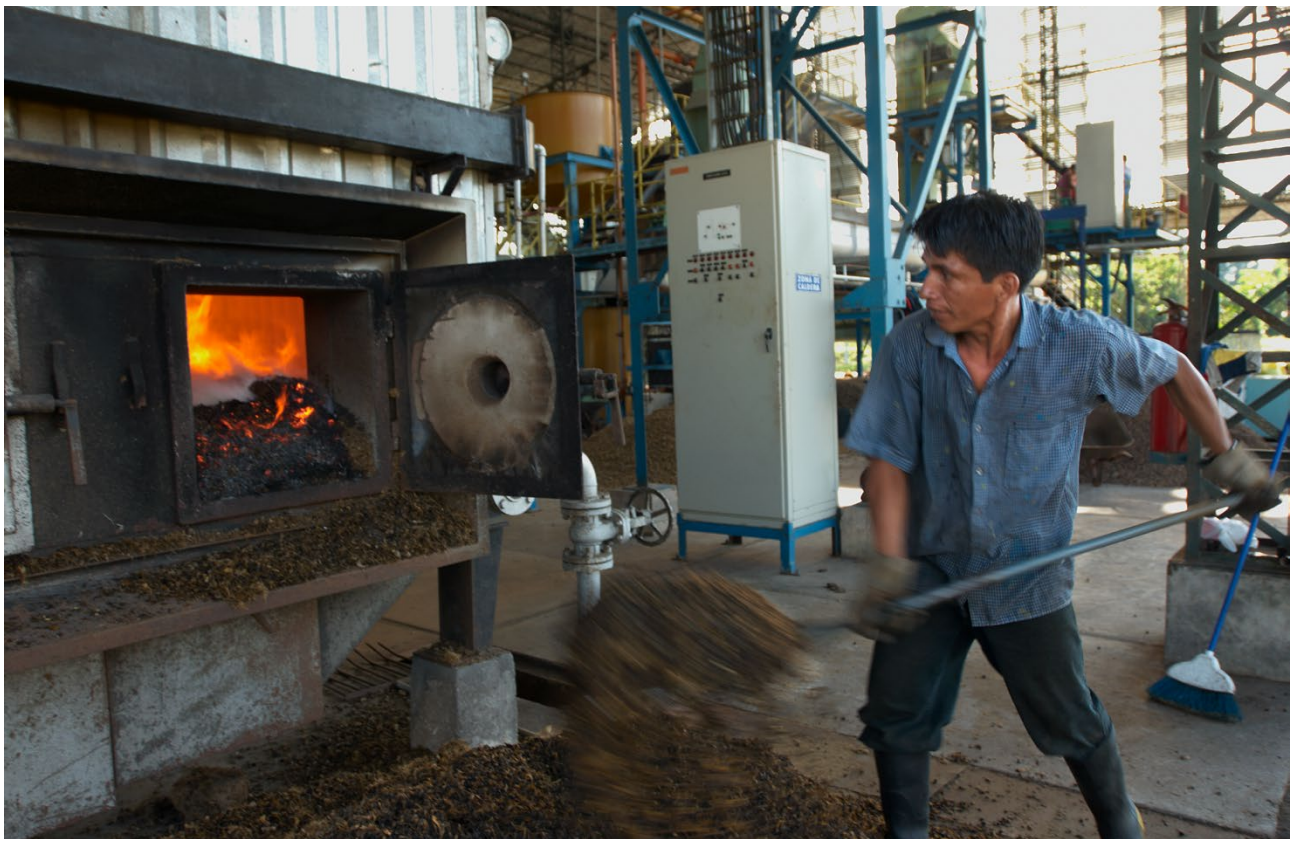
Once the loans to establish plantations and build the mills are distributed, the prospects of profits are high, but mostly for those individuals with shares in the processing mills, creating tensions between the agricultural (producer) and industrial (processor) components of the business. Farmers often 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 profits for farmers 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 but who are not accepted. This is either because they don't meet the conditions for acceptance, or the existing members are reluctant to bring in new partners. Then, they remain only as suppliers of fresh fruit bunches with no rights to profits from the mills or services from the producer associations. This had led to cases in where excluded farmers organize themselves and start their own associative mills, with or without the support of alternative development programmes but following the same model, as with INDOLMASA in Ucayali. In essence, full inclusiveness of the model – characterized by direct or indirect access to the profits from processing – is limited to persons 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 in the palm oil trade, 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, and is the only company with full vertical integration of production. Most of its crude palm oil is refined and transformed into end products that are commercialized in main in cities of the Peruvian Amazon. Alicorp, Peruvian's most important mass-consumption food producer buys around 85% of the rest of crude palm oil produced in Peru, as it owns a refinery in Lima. Together, 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 collaboration and competition. Collaboration between actors has occurred to defend sector interests in crucial matters such as implementation of biofuel regulations or the approval of the national plan to promote palm oil, and in the face of stigmatization due to deforestation scandals. Though perceived as monopolistic, Grupo Palmas 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.

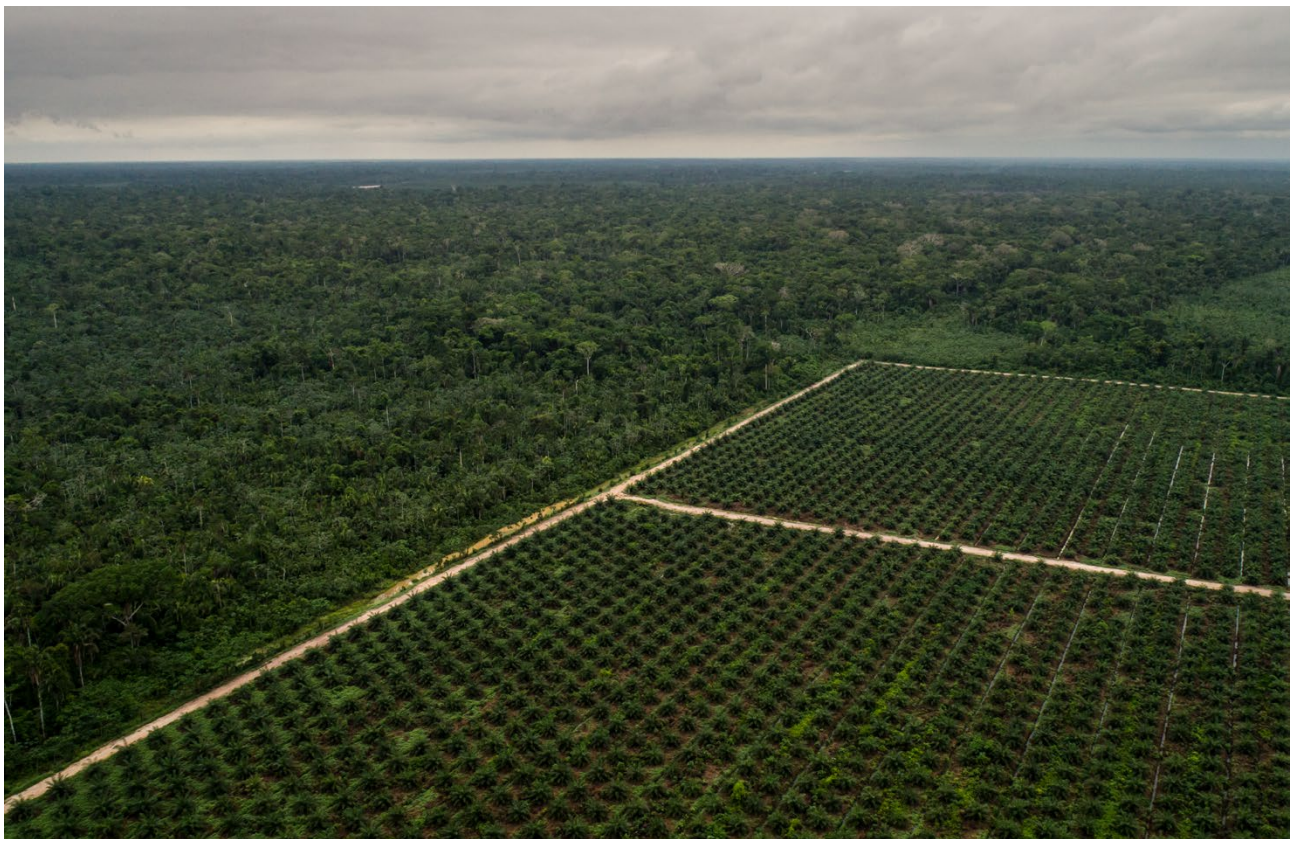


The distinctive component of the United Nations model is that farmers access the profits of oil extraction. Photo by: Thomas Mueller / SPDA

Competition has been historically based on commercial grounds. The case of OLPESA and its producer organization ACEPAT epitomizes the tensions between industrial mills and smallholders, in this case with the United Nations model plantations and Grupo Palmas in Tocache, San Martin. OLPESA was established in 2006 in Grupo Palmas' territory, or "right next to the giant" as one former manager of the processing mill put it. The objective was to step up and access profits created by processing fresh fruit bunches, at a time when international cooperation funds were declining as Peru had become a middle-income country. Though 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 start the processing mill, ACEPAT obtained a loan from the government, members also individually accessed credit, external investors were invited, and a food processing company (Alpamayo) was brought in as strategic partner. The OLPESA mill was built on the foundations left by a bankrupted former public oil palm company (EMDEPALMA), as the state transferred land previously owned by the public company to the personnel as means of compensation. Despite the strong participation of private investors in OLPESA, ACEPAT still holds 54% of the shares, and the business structure of the company has enhanced its competitiveness. But following OLPESA's success in Tocache, Grupo Palmas established another mill in the area to further compete with it for fresh fruit bunches from local farmers, indicating that 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 take a share of the market, but scaling up successes this is not without its challenges. In recent years, processing companies like OLPESA and OLAMSA and other palm oil traders formed a consortium called 'Sol de Palma'



Aerial view of Ochosur large-scale plantation in Ucayali.
Photo by: Diego Perez / Oxfam

to export palm oil. They have an ambition 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 'Palmas del Shanusi' in 2006, and particularly 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, but has also impacted on 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 – are reluctant to condemn documented cases of large scale deforestation and to distance themselves from Ochosur. The arrival of this new company generated high expectations from producer organizations as they perceived that competition between corporate actors would broaden flexibility in the rest of the supply chain, and counterbalance Grupo Romero's monopolistic tendencies. But for reasons unknown, Ochosur has not yet built any mills to process fruits coming from their 10,000 ha of oil palm, and the resulting large volumes of produce is a highly attractive business opportunity for the Sol de Palma consortium to increase their production of crude palm oil and achieve their ambitions for refining and exporting.

Engagement in businesses with Ochosur has affected the social and environmental credentials of the mills managed under the United Model models, and malpractice by Ochosur has recently been exposed by civil society organizations (http://palmas-para-nadie-deforestacion-en-la-amazonia.

convoca.pe/), and some corporate buyers have started to pose conditions and become suspicious about the sustainability credentials of palm oil sourced from these mills. Furthermore, stigmatization of oil palm in the country has complicated producer organization relationships with the government and their access to financial credit.

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 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 model for palm oil production. In fact, they 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. Also, the cooperative structures used by producer organizations regarding ownership of processing mills has been a crucial factor for increasing profits and poverty alleviation. And participating in the industrial processing of crude palm oil from the 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 been largely established in already deforested areas, though it is possible that the economic success of the model incentivizes 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 have even less opportunities to build processing mills without external support. Involvement of international cooperation and the Peruvian government was necessary for these projects to succeed. The distinctive element of this model – that farmers could access a part 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 higher market shares, and models like this tend to experience challenges when faced with closer 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, towards successful capitalist growth. If this transition comes at the expense of partnerships with questioned producers –such as those involved in large-scale deforestation scandals – the sustainability credentials of this model can be easily blurred in narratives of oil palm stigmatization.

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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.

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Cover photo: Oil palm grower in his farm in San Martin region. Thomas Mueller / SPDA

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