Latin America & the Caribbean • Brazil

Votorantim Celulose e Papel (VCP) in Brazil: Planting eucalyptus in partnership with the rural poor

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Sector • Agriculture
Enterprise Class • Southern MNC
Summary

Brazil is a country with high inequalities in income and widespread poverty, especially in rural areas. Despite recent State policies in support of rural settlements through the land reform program, there remains a mismatch between the social demands of the people and the capacity of the State to respond appropriately. It was in this context that Votorantim Celulose e Papel (VCP), a major pulp and paper company in Brazil, was undergoing a significant forestry expansion in the state of Rio Grande do Sul. VCP devised a business model that included the local community as eucalyptus production partners.

Through VCP’s Poupança Florestal (Forest Savings Account) program, the bank ABN AMRO Real provided farmers with financial resources. VCP provided seedlings and technical assistance to plant eucalyptus while committing to buy the timber, after seven years, at a fair price. The Forest Savings Account program is supported by local partnerships with governmental agencies and universities. This case looks at VCP’s business model and how it contributed to the socio-economic inclusion of the impoverished rural population.

Introduction

Poupança Florestal (Forest Savings Account) is a eucalyptus plantation program developed by Votorantim Celulose e Papel (VCP) in the context of a major business expansion in the state of Rio Grande do Sul, the southernmost state of Brazil. The program provides an opportunity for VCP’s neighboring farmers to become partners in the production of timber. The bank, ABN AMRO Real, provides partnering farmers with financial resources (through loans). VCP provides the seedlings and technical assistance to plant eucalyptus at no cost while committing to buy the timber after seven years. Figure 1 illustrates the various partners involved in the Poupança Florestal program.
The Program encompassed the participation of various producer profiles [owners of large (about ten percent), medium (about 20 percent) and small properties (about 70 percent)] as partners in eucalyptus production. The significantly larger group of small landowners was composed of different income profiles, from subsistence to commercial agriculture, and was mostly family-based. They were particularly vulnerable and lived on the verge of social-economic exclusion if not provided with the conditions to make a living from the land.

Poupança Florestal sought to engage small-scale farmers (including settlers and traditional small-scale farmers) as potential business partners, with the necessary conditions in place: access to credit, capacity building, technological resources and assistance. The program improved the chances of their participation in the market. Participation in the program represented job opportunities, avoided migration, and food security and also the sense of belonging and the security of more consistent social inclusion.

The Agrarian Context: economic stagnation, poverty, and conflicts

VCP was expanding in the southern half of the state of Rio Grande do Sul, a region marked by agrarian stagnation and conflicts. The ongoing situation of latent conflict represented a
crucial challenge to the advancement of Brazil’s competitiveness and future development: the inequitable access to property and the persistently high level of income inequality.

A PERSISTENT LAND CONCENTRATION PATTERN
The pattern of land distribution in Brazil started in 1530 with the creation of a system by which the Portuguese Crown distributed vast lots for cultivation in exchange for one sixth of the production. Since then, the property structure has remained strongly concentrated.\(^1\) The stable pattern of land concentration can be observed by the Gini Index\(^2\): 0.837 in 1972; 0.854 in 1978; 0.831 in 1992; 0.843 in 1998; and 0.802 in 2000.\(^3\)

According to the Ministry of Agrarian Development, 45 percent of the agricultural area is concentrated in one percent of rural properties. This is a significant factor in one of the world’s most unequal income distribution patterns, and it hinders local development by forcing migration to the cities.\(^4\) On the other hand, violence and conflict in rural areas have heightened, as rural populations, displaced in the technological modernization process, searched for other means of survival.\(^5\)

THE ECONOMIC IMPORTANCE OF SMALL-SCALE FARMING

The importance of small landowners, especially of family-based agriculture, is both economically and socially noteworthy. In the Brazilian context of scarce capital but abundant labor and land, labor-intensive family-based agriculture is an important component of local development.\(^6\) According to the National Program for the Strengthening of Family Agriculture (PRONAF), the participation of family-based agriculture represented 10.1 percent of the GNP in 2003 or R$ 156.6 billion (about US$74.6 billion). Representing 85.2 percent of the total number of rural establishments, and occupying 30.5 percent of the area, the small productive units were responsible for 37.9 percent of the gross value of national agriculture, 50.9 percent of total income from agriculture and 77 percent of the labor occupied

\(^1\) Buainain and Pires, 2003.
\(^2\) The Gini Index varies from 0 to 1, and the closer it is to 1, the more concentrated is the attribute measured.
\(^3\) MDA, 2001.
\(^4\) According to the Brazilian Institute of Geography and Statistics (IBGE), from 1999 to 2001, 5.3 million people left the countryside. From 1985 to 1996, 941,000 producing units were closed, 96% of which smaller than 100 hectares (Rosseto, 2006).
\(^5\) The process of technological modernization contributed to economic growth that marginalized the rural population, with less demand for labor. At the same time, selective credit policies favored large producers (Buainain and Pires, 2003).
in the rural areas. The total income per hectare/year was 2.4 times higher where family work prevailed.7

A LAND REFORM PROCESS DRIVEN BY CONFLICTS

The fight for land in Brazil has been historically permeated by violence, which increased in the 1980s as, along with the end of the military regime, the rural workers movement pressured for land title. Increased pressure for land led to increased violence, practiced by the large landowners and the government as an attempt to defend the rural properties.8 The number of deaths of rural workers in conflicts in the last decades is periodically reported by the Pastoral Land Commission: in 2005, alone, 1,304 land conflicts were registered, with 38 people dead.9

Land conflict and the lack of more aggressive land resettlement policies precipitated important social movements, led by the Movement of Landless Rural Workers (MST).10 They employed land occupation as a main strategy, forcing the government to institute a more significant land distribution process. Between 1995 and 2001, 584,301 families gained land titles.11 Parallel to that, in 1996, a governmental program dedicated to strengthening family-based agriculture (PRONAF) was also instituted.

The importance of MST in this process was broadly acknowledged not only for bringing land reform back to the agenda, but also for strengthening the demand for special policies for family-based agriculture.12 The land occupations were a key driver in the land reform program.14

By 2006, the political scenario had not changed much. The government’s support of land reform was being criticized for not meeting its promised goals,15 even though the government was politically aligned with social movements such as MST. Conflicts persisted, with violence arising both from the rural movement and against it; governmental action responded to crises, instead of avoiding them.

However, property rights were just one of the constraints in the process of increasing opportunities for the rural poor. Besides facilitating access to land, the State needed to ensure that the people had other means (including access to water, electricity, education, healthcare, financing) so the settlements could advance beyond subsistence living.

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10 The estimated demand for land reform was between 3-4 million families by 2003.
12 The relationship between MST and the new settlers, former landless people, remains even after the land is granted by the government, which is why the Movement is seen as a relevant interlocutor for both rural groups. The needs of small-scale, family-based agriculture also gained more visibility as MST became stronger.
15 See Oliveira, 2006.
THE AGRARIAN CONTEXT IN RIO GRANDE DO SUL

In Rio Grande do Sul, the historical land dispute problems were intensified. The region had the highest concentration and historical tradition of small property and family-based agriculture, and politically organized producers. In 2006, the landless people movement underwent a radicalization process evidenced by the destruction of eucalyptus nurseries of another large pulp and paper company. In the face of the multiplication of MST’s main means of pressure, land occupation, and the fact that campsites surrounded some farms with around 100 landless people, the region has seen a growing fear of invasions among the large landowners.

The campsites were comprised of landless people who had claimed land, but whose claims had not yet been granted by the land reform program. They typically use black canvas tarps as shelter, and in some cases, they grow small crops and livestock. The camp situation is marked by enormous instability and stigma.

Another unique aspect of the region was the presence of hundreds of settlements generated by the land reform program (see Figure 2). The region where VCP planned to expand its activities had 4,648 settled families (in 133 settlements) over the last 25 years. However, because access to land was not followed by the necessary resources and governmental assistance for agricultural production, the settlers were mostly living in precarious planting and housing conditions. In some cases, the situations were similar to urban slums, which contributed to a scenario of socio-economic and political instability.

Figure 2: Geographical region of VCP’s venture, in the southern half of Rio Grande do Sul, and neighboring settlements

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16 It is in this region where protests against the effects of agriculture’s modernization on the rural community led to the formation of MST in the 1980’s.

17 When small plots of land are officially granted, they form a settlement.
Even with land title, traditional small-scale farmers in the region faced similar difficulties in establishing livelihoods. The southern half of Rio Grande do Sul, where VCP was expanding, was basically dependent on cattle and rice and suffered from price instabilities, an unfavorable tax regime for both products, lower-cost rice imports from Uruguay, as well as barriers for the cattle exports to Uruguay and to the neighbor state of Santa Catarina. As a result, it was one of the poorest regions in Brazil.

A CLOSER LOOK AT THE PULP AND PAPER SECTOR: DAMAGED REPUTATION

The pulp and paper sector had a reputation for aggravating the agrarian conflicts in Brazil. The criticism stemmed mainly from the sector’s activities in the states of Bahia and Espírito Santo and were related both to the social and environmental impacts of large-scale eucalyptus plantations.18 In the 1970s, as the plantations expanded, small farmers, rural black communities (descendants of runaway slave communities, the quilombos) and indigenous communities were pressured to move to marginal agricultural areas or, by losing their subsistence means, ended up migrating to urban areas to live in slums. The process has contributed to the high land concentration and valuation in those regions. In the city of Aracruz, just one company owns about 40 percent of the territory through the annexation of 244 properties.19

The expansion of eucalyptus in those regions has also contributed to the reduction of the remaining Atlantic Forest. Besides the impact on biodiversity and, consequently, on the subsistence conditions of some of the local communities, non-compliance with the environmental legislation and deforestation of riparian forests and other sensitive areas has brought severe negative impacts to the regional water balance and erosion process.

Votorantim Celulose e Papel (VCP)

THE COMPANY

VCP is among the largest pulp and paper companies in Latin America, operating in Brazil and internationally. It produces eucalyptus pulp, including hardwood bleached market pulp. The characteristics of VCP’s bleached eucalyptus pulp make it suitable for producing a variety of paper types, including printing and writing papers, cardboard, coated papers, carbonless paper, thermal paper and labels. The company’s integrated operations range from wood production to distribution to the final consumer.

In 2005, VCP registered a net income of approximately US$1.3 billion. From this, 38 percent corresponds to pulp and 62 percent to paper sales. In relation to markets, the participation in the income was 50 percent foreign and 50 percent domestic. In 2005, the sales reached 1,493

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18 For example, several civil society organizations working in these regions established the Alert against the Green Desert Network (Rede Alerta Contra o Deserto Verde).

19 See Calazans, 2002.
tons, composed of 58 percent of pulp and 42 percent of paper. From the total produced, 66 percent was directed to the foreign market and 34 percent to the domestic market.

With heavy investments in research, genetic improvement and the expansion of its forest base for decades, VCP’s pulp was 100 percent originated from eucalyptus planted forests. The combination of diversified products and 100 percent planted forest feedstock provided a competitive differential for VCP. The company trades stocks on the São Paulo Stock Exchange (Bovespa) and New York Stock Exchange (NYSE), and owns shares in other major companies from the sector such as Aracruz Celulose, Suzano Bahia Sul Papel e Celulose and Ripasa. The company, headquartered in São Paulo, was founded in 1988, and is a subsidiary of Votorantim Participações S.A.

PLANNING THE VENTURE

While planning a business expansion in 2003, the company mapped worldwide the potential geographic areas to develop a new industrial park. The southern half of Rio Grande do Sul was chosen mainly for its productive advantages: good logistical conditions, land and labor availability, climate conditions and topography appropriate to eucalyptus, good water supply and relatively high education level of (a portion of) the population. The goal was to have 100,000 ha of eucalyptus planted in the area by 2011. By this time, VCP would have a pulp mill in the region for processing the timber.

VCP’s vision for the next 15 years, a relatively short timeline for a business that runs in seven-year production cycles, would see the company become the world’s biggest supplier of eucalyptus pulp, with a three-fold annual net income increase through the expansion of pulp and paper production by 2020. This meant an increase in net income, from US$1 billion in 2004, to $4 billion in 2020. In 2004, VCP started buying land in Rio Grande do Sul.

The traditional agribusiness model of depending as little as possible on third parties and buying land to plant and harvest whenever needed had potential land concentration effects that could inflame the already volatile region. In an attempt to include local farmers in the business process, VCP decided that 30 percent of the timber used in production should come from third party suppliers.

This 30 percent target would require 30,000 ha sourced from partnerships with the local community whose trust was yet to be earned by the company. The local farmers were cautious in relation to the new business in their region and also concerned about the reputation of eucalyptus for drying and impoverishing the land. The other major barriers in working with the local farmers were the lack of experience in planting eucalyptus in the region and the lack of financial resources available to plant (not to mention the seven year

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20 Although not intuitive, the availability of good universities, combined with the past prosperous times in the region, resulted in a good pool of relatively well-educated labour for management and operation. There are also many marginalized people, as discussed earlier. This phenomenon links directly to the high level of disparity in Brazil.
wait until the forest can be cut and crop income can be realized). It was in response to these challenges that VCP created the Poupança Florestal program.

**Poupança Florestal (Forest Savings Account): building reliable business linkages with local communities**

Implemented in 2005 by VCP, Poupança Florestal (Forest Savings Account) is a program that facilitates the participation of the company’s neighbor farmers in the eucalyptus production. By engaging the community, it was hoped that a sense of inclusion would also contribute to legitimizing VCP operations in the region. Through this model, the producer can plant without prior financial reserves, and does not need to use his property as a guarantee for the loan. Instead, the timber produced is the guarantee, and the wife is signatory to the loan as a means to ensure compliance by the farmer.

ABN AMRO Real was the only bank in Brazil that accepted the conditions proposed by VCP. Maurik Jehee, ABN AMRO Real credit analyst, said that VCP’s intermediation, the possibility of gaining new clients for long-term relationships and the alignment with the bank’s sustainability guidelines were the main reasons for accepting proposal. “Besides its environmental concerns, [Poupança Florestal] has an interesting social aspect and regional development potential. Moreover, it brings the potential of new clients in a region where the bank has little penetration”, said Jehee. The financing volume is expected to reach up to US$30 million over seven years (i.e. by 2012) and benefit 20,000 to 25,000 producers.

**FINANCING**

- Financing provided by ABN AMRO Real at an interest rate of 9% per year (See Table 1 with four-year loan disbursement schedule)
- Timber guarantees the loan
- Female head of household is signatory to the loan
- The loan, totaling R$2,371 over 4 years, allows the farmer enough capital to purchase production inputs and remunerate the labor for planting eucalyptus
- The loan amount is equivalent to VCP’s own costs to plant the forest; so the farmer can either hire the same company that carries out the planting for VCP or learn how to plant themselves and use the money on something else (for example, a tractor)
- The due maintenance tasks and expenditures are monitored closely by VCP
- Agreement set for 14 years, or two cycles of eucalyptus production
- Risks of failure (in timber delivery) would be shouldered by ABN AMRO Real and VCP; when the partnership is with land reform settlers, only the risks would be shouldered by VCP
Table 1: Distribution of financial resources over the production cycle

<table>
<thead>
<tr>
<th></th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL (R$/ha)</td>
<td>1,689</td>
<td>222</td>
<td>236</td>
<td>363</td>
<td>2,510</td>
</tr>
<tr>
<td>LABOUR (R$/ha)</td>
<td>1,180</td>
<td>124</td>
<td>135</td>
<td>280</td>
<td>1,719</td>
</tr>
<tr>
<td>INPUTS (R$/ha)</td>
<td>509</td>
<td>98</td>
<td>101</td>
<td>83</td>
<td>791</td>
</tr>
</tbody>
</table>

Note: Values corrected by 9% a year; the loan is completely disbursed after four years, because minimal inputs are required in years five, six and seven, although interest continues to accrue. Repayment does not occur until timber is harvested.

Source: VCP

ALTERNATIVE INCOME

- To avoid dependence on eucalyptus, the area planted is limited to 30% of the farmer’s property, so they continue growing traditional crops (corn, rice and cattle breeding). This is also important to provide income until the seventh year (timber harvest). VCP donates traditional crop seeds to settlers, small and medium producers.
- The net income per ha by the end of the seventh year is approximately R$ 4,87821 (based on an average expected production of 280 m3/ha by the seventh year); comparatively, this would be enough to buy one ha of land in the region (Table 2). If the crop produces less than expected, the net income per ha will be proportionally reduced.

Table 2: Earnings calculation

<table>
<thead>
<tr>
<th></th>
<th>Today - without correction</th>
<th>7 YEARS Correction for 9%*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt (inputs + labor)</td>
<td>(R$ 2,372/ha)</td>
<td>(R$ 4,336/ha)</td>
</tr>
<tr>
<td>Selling price</td>
<td>R$ 18/m3</td>
<td>R$ 33/m3</td>
</tr>
<tr>
<td>Average expected production</td>
<td>280 m3</td>
<td>280 m3</td>
</tr>
<tr>
<td>Gross income (production x price)</td>
<td>R$ 5040/ha</td>
<td>R$ 9213/ha</td>
</tr>
<tr>
<td>Net income</td>
<td>R$ 2668/ha</td>
<td>R$ 4878/ha</td>
</tr>
</tbody>
</table>

* 9% correction for selling price adjustment each year; it is the same rate as interest.

Source: VCP

TECHNICAL SUPPORT AND CAPACITY BUILDING

- VCP provides eucalyptus seedlings (and also native forest seedlings for the reforestation of sensitive areas) at no cost. In order to guarantee productivity, VCP provides the same genetic material used in its own forests.

21 Already corrected by 9% a year until the seventh year.
Emater (Technical Assistance and Rural Extension Agency) was contracted from 2005 to 2015 by VCP to provide (free) technical assistance to the farmers on the production operations, from the initial property planning phase to planting the forest and maintenance throughout the whole cycle.

Each plantation is regularly and closely monitored by Emater to ensure proper maintenance measures are undertaken for each phase (for example, ant and weed control), which is a precondition for the release of the next installment of the loan and also reduces the risks of crop failure.  

PURCHASING TERMS
- After 7 years, VCP guarantees the purchase of at least 95% of the timber, for a previously established price (currently set at R$ 18/m³, the regional market price, corrected by 9% a year, the same rate as the loan).
- If, by the time of the harvest, the market value of timber is lower than the established by contract, the latter prevails, which represents a low risk for the producer.
- VCP pays for the harvest and transportation of the timber from the farm to the pulp mill.

AGROSILVICULTURE
The 30% maximum land allocation to eucalyptus can be concentrated in one area, or be mixed with other farming activities such as grains, and livestock throughout the plot of land (i.e. agrosilviculture).

CONTRACTUAL REQUIREMENTS
- Compliance with environmental legislation.
- No use of child or forced labor.

Development Impacts

INCLUSION OF THE SETTLEMENTS AND TRADITIONAL SMALL-SCALE FARMERS
In order to make the small forests of settlements and traditional small-scale farms commercially viable, planting would ideally be on neighboring properties within a five km distance. This would facilitate the logistics for VCP to harvest the wood—an activity deemed too risky (from a health and safety perspective) for farmers to undertake themselves.

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22 Eucalyptus requires particular care in the first year, and some also in the second year (ant and weed control; adding fertilizers).
23 Around 5% of the wood can be used for internal consumption (avoiding the use of native trees for that aim), or be sold in the market in larger sizes for a higher price.
24 There's a commitment to enforce it among regional trade unions, and compliance is verified by Emater.
25 For example, if the average size of settlement is 20 ha, and subtracting the land for subsistence (corn, beans, cattle and lamb), what is left is about 5 ha for eucalyptus forests.
According to ABN AMRO Real, from the initial public communications of the program in 2005 until the end of 2006, 312 projects had been approved (representing 7,283 ha of eucalyptus planted area), and another 55 were under assessment in the bank, corresponding to a total area of 8,409 ha. This number had much potential to grow as more applications are submitted and approved by VCP and ABN AMRO Real. The main bottleneck in the approval process for farmers to join the Program resulted from the irregularities found in the property documentation of small producers. Land regularization is a slow process requiring government approval.

By the end of 2006\(^2\), about 131 settled families had signed agreements with VCP to join Poupança Florestal, usually with five to ten ha each, and a total planted area of approximately 874 ha. The majority of the projects (78 percent) correspond to small producers and settlers. In terms of planted area, small producers and settlers represented 47 percent of the total. Table 3 shows a breakdown of VCP suppliers.

Table 3: Distribution of projects by producer type

<table>
<thead>
<tr>
<th>Producer type</th>
<th>% projects</th>
<th>% area</th>
<th>No. projects</th>
<th>Area (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Reform Settler</td>
<td>42</td>
<td>12</td>
<td>131</td>
<td>873.96</td>
</tr>
<tr>
<td>Small (&lt;100 ha)</td>
<td>36</td>
<td>35</td>
<td>112</td>
<td>2,549.05</td>
</tr>
<tr>
<td>Medium (101-500 ha)</td>
<td>18</td>
<td>35</td>
<td>56</td>
<td>2,549.05</td>
</tr>
<tr>
<td>Large (&gt;500 ha)</td>
<td>4</td>
<td>18</td>
<td>13</td>
<td>1,310.94</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>312</td>
<td>7,283.00</td>
</tr>
</tbody>
</table>

Source: ABN AMRO Real

As the settlers observe the positive impacts on their neighbors, and VCP continues with the Program’s communication activities, the company expects increased interest in subscribing to the Program.

ALTERNATIVE SOURCE OF INCOME

The partners of the Program start by receiving Emater’s (Technical Assistance and Rural Extension Agency) training, and in the first year receive the loan to plant the forest. By undertaking the labour activities themselves (including planting, ant and weed control), the

\(^{26}\) Information from ABN AMRO Real, referring to 05/12/2006.
amount designated for these activities (the same amount paid by VCP if contractors would do the task) is kept in the family as income and can be allocated to other uses.

According to VCP’s estimates, by the end of the process the producer’s profit is expected to be around R$ 2,500 per ha27 (see Table 2 for details), not considering the potential savings in labor. By providing a business model that allows the participation of such small scale producers on an individual production scale which might imply increased start up, maintenance and logistic costs for the company, thereby reducing its commercial viability—this represents an important income alternative for small farmers who lack the financial means of making a living off their land, while representing job opportunities for their families.

ENVIRONMENTAL COMPLIANCE

VCP’s growth strategy had to also take into consideration the environmental impacts normally associated with agriculture: compliance with the environmental legislation, with special care for legal land reserves and permanent protection areas. Although environmental legislation compliance should be a basic condition for the operation of any agricultural business, this was not true for the majority of cases in Brazil. According to VCP, non-compliance also occurred in the pulp and paper sector in Rio Grande do Sul, but VCP incorporated the requirement for environmental regulatory compliance in all the contracts with the partner farmers as a precondition for financing.

Under the initial training phase the farmer, together with the technicians provided by the public agency, Emater, is responsible for the planning of plantation and preservation areas. In order to avoid dependence on eucalyptus production, as well as the disruption of the culture of cultivating traditional crops such as corn, rice and cattle breeding, the Program established that 50 percent of the property should be kept with the original crop. In the other 50 percent, the legal minimum of 20 percent of the total area must be set aside for preservation, as well as the permanent protection of the surroundings of water bodies28 (about five percent). This leaves a maximum of 30 percent of the property with the potential to be allocated for eucalyptus production. The result is a mosaic very different from the monolithic plantations that usually grow across preservation areas and create multiple socioeconomic and environmental impacts.

27 Comparatively, the national minimum wage is R$350 per month, and one hectare of land in the region is around R$2500 to R$3000.
28 The Brazilian Forest Code determines the permanent protection of the areas within at least 30m along water bodies and 50m in the surroundings of springs.
Challenges for scaling up Poupança Florestal

In order to achieve the goal of 30,000 ha of eucalyptus planted by third parties in the southernmost part of Rio Grande do Sul, the actual area contracted must be much bigger, which demands broad participation by the local community.

The relationship between MST and new settlers (formerly landless people) remained even after the government granted land, and the Movement was seen as a relevant interlocutor for both rural groups. For this reason, in 2004, VCP invited Ciro Correa, a top-representative from MST, for a meeting in an attempt to establish a new standard of relations with MST in Rio Grande do Sul and to discuss what was needed for all parties to benefit from VCP’s investment in the region. The meeting took place with the mediation of Oded Grajew, president of Instituto Ethos, the most active and well-known organization promoting corporate social responsibility in the country, and one of the founders of the World Social Forum.

Ciro Correa had to take political restrictions into account, because MST takes an embattled stance in its attempt to build new and more inclusive standards of living for the country’s rural populations. He replied that he needed to consult the MST leadership before giving a definite answer to VCP’s proposed “partnership.” Although the Movement never stated an official position, about one month later the message was clear: MST did not want to get involved.

The reasons why MST ignored the proposal and the opportunity to dialogue were not officially declared. However, they can be deduced from the clear opposition of the Movement to homogeneous and massive forests. MST defends a different development model, which is one that excludes large-scale agribusiness.

As a key civil society representative of settled farmers and family-based agriculture, MST’s support was important. Therefore, since there was not an official opposition to the participation of the Movement’s members to VCP’s proposal, the member farmers could still opt to join Poupança Florestal on an individual basis and not feel overtly conflicted with the MST.

As the region traditionally produces annual crops, there can be uncertainties in relation to a 14-year (two cycles of seven years) commitment. Still, interest in the Program has grown since 2005, reinforced by the trust built as neighboring settlers could see the impacts on the VCP producers.

Assuming interest continues to grow, the Program is threatened by bureaucracy as a possible obstacle. As mentioned earlier, small properties usually have irregular documentation, and legal requirements for the regularization of property documentations can vary from town to town. The regularization process brings extra costs and delays that may cause difficulties for farmers’ participation in Poupança Florestal.
Challenges building a social license to operate

Beyond the Poupança Florestal program, VCP had to establish a license to operate in the region. To achieve this they needed to work with the local community, face the environmental concerns of eucalyptus production, forge partnerships with public agencies and open lines of communication with their stakeholders as much as possible.

PRIORITIZING LOCAL BUSINESSES AND ESTABLISHING LABOR RELATIONS WITH SETTLERS

Besides the inclusion of the neighboring farmers as partners in the planting of eucalyptus through Poupança Florestal, VCP’s activities on the larger land area corresponding to its own properties (70 percent of the total planned area) also aimed to strengthen its license to operate in Rio Grande do Sul.

The company sought to prioritize local businesses for the purchase of local inputs, and hired local people for activities ranging from management to operations. All contractors working in the plantations (including VCP’s own properties) come from Rio Grande do Sul; in total, they employed about 900 people. “Less than 50 people come from other regions, and many of them come from settlements”, stated VCP’s CEO, José Luciano Penido.

The settlers who were hired receive special attention. Besides having all of their labour rights guaranteed, they were assisted by an employee relations team made up of people from VCP, third party workforce contractors and Emater. Proper working uniforms, transport to and from work, training, health care, hot food and toilet facilities in the fields are some of the benefits provided to the workers.

AGROFORESTRY AND EUCALYPTUS: CONTROVERSIES AND JOINT STUDIES

Another important aspect of the mosaic-type forest plantations is the possibility, if desired by the farmer, of technical assistance for the practice of agroforestry—planting forest with other crops or pasture, in the same piece of land— or more specifically, agrosilvopastoril system when including animal breeding. The practice of agroforestry aims to produce and maximize positive interactions between trees and crops and is usually seen as having an important role to play in rural development and the production of sustainable agricultural systems.

However, the controversies around eucalyptus could not be ignored. Eucalyptus is a fast growing tree, demanding of soil nutrients and water, and there is also a debate over its suitability to agroforestry systems. A characteristic of eucalyptus is its ability to adapt to diverse soil and water conditions due to its long and deep root system. Moreover, it is a very competitive species in relation to the surrounding plants, bringing, in some conditions, risks of desertification and biodiversity reduction. However, it is also argued that these negative

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29 See Sungsumarn, 1996.
effects can be avoided with proper management techniques\textsuperscript{30}, and a key component for the success of the Program was to ensure that the technical orientation was followed correctly and the environmental legislation respected.

Well aware of the criticism that the introduction of eucalyptus in small properties might raise, in addition to the requirement of adequate soil and native vegetation management practices, VCP established university partnerships to monitor the impacts of eucalyptus introduction in the region.

One of the academic partnerships is the Federal University of Santa Maria and the Albert–Ludwigs–Universität Freiburg (Germany), which created a joint study to monitor parameters such as soil, atmosphere, water (including rainfall quality and quantity inside and outside the forest), nutrients and light conditions for eucalyptus plantations and its interaction with sorghum, soy and forage crops (the agrosilvopastoral system) and with native forages in the south of Rio Grande do Sul. Having started in 2005, the study intends to carry out several measurements throughout a seven year period (time cycle for the growth of eucalyptus) and to introduce new monitoring technologies for forests planted together with agricultural crops, forage and animal breeding.

Other partnerships for fauna, flora and architectural heritage inventorying and monitoring include key universities of the region, such as the Universidade Católica de Pelotas, Universidade Federal de Pelotas and Universidade Federal de Santa Maria. These universities are all important for their familiarity with local issues and also for their relevance in the agricultural area.

Another project with the University of São Paulo aims at building a comprehensive assessment system of the impact of VCP’s activities in Rio Grande do Sul, based on socioeconomic indicators of local development and sustainability.

The economic impact of VCP’s entry in the region also called for partnerships and intense talks with local trade unions and municipalities.

**ESTABLISHING PARTNERSHIPS WITH PUBLIC AGENCIES**

Besides the working partnerships with academia, the partnership with the public agency Emater (Technical Assistance and Rural Extension Agency) has been fundamental to the Program’s implementation. Emater provides capacity building, training and monitoring for the Program. Fernando Roldan Alves is the Emater employee who is responsible for the VCP partnership. He said: “You design a project and go see the guy and he says he wants to plant 6ha of eucalyptus trees and you go there and plant them. And you schedule a day and go there and it has all been really planted. You get there and you can see the work the landless peasants\textsuperscript{31} have done. This is really great. We were not used to this kind of stuff and [Emater alone] does not have the resources needed to carry it out. That’s the truth. And those 6ha must be overseen, we collect some material, we have to control it. There are 500ha out there

\footnotesize{\textsuperscript{30} See Couto and Betters, 1995.  
\textsuperscript{31} He actually refers to former landless people, now settlers.}
and these fellows are going to sell the land cheaply because they have no other resources? Well, now they can prosper. They are planting and making money that ends up being spent right here in the region.”

The university partnerships mentioned above, together with governmental bodies and the participation of trade unions (who seek to ensure that labor legislation is enforced), facilitate monitoring of the social and environmental impact based on primary data. However, it would be also important and helpful to forge a partnership between the company and the civil society organizations who oppose VCP’s eucalyptus entry in the region and to seek their constructive participation in the monitoring processes.

COMMUNICATION AND CONFLICTS
The criticism raised against the pulp and paper sector’s activities in Rio Grande do Sul (including VCP) – the threat of a green desert, species extinction, to the biome of the pampas, lack of water and jobs and rural exodus can still be seen in the local media, and much of it is concentrated in a publication recently distributed called “The Latifundia of Eucalypt.”

Thus, it has been vital to the company to keep communication channels open with the community and the media in order to be able to clarify and modify plans when necessary. Lectures, interviews and meetings with the communities are among the activities regularly undertaken by VCP.

AVOIED INVASIONS
So far, VCP seems to have earned a license to operate. In the last year, the occupation strategy to pressure the Brazilian Government into speeding up agrarian reform, coordinated by MST and other organizations that defend the rights of landless rural workers, has worked against all the companies that own large tracts of land. Land tracts belonging to several pulp and paper companies were invaded in many regions, except for those in the south of the country that belong to VCP. The company managed to avoid being invaded due to information received from settlers, who, as mentioned before, remain linked to MST even after acquiring land, and who take part in the Poupança Florestal program, and from those who work as hired hands.

Conclusion
VCP’s strategy was to develop a business model that addressed the needs and circumstances of the region in which it wanted to expand. By providing financial resources with reasonable conditions and free technical assistance, the company contributed to a more favorable environment for business growth, at the same time as facilitating livelihood opportunities for the rural poor.

32 See Vargas and Cassol, 2006; Ritzel, 2006.
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The information presented in this case study has been reviewed and signed-off by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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