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PREEMPTING LAND-RELATED CONFLICTS: THE CASE OF VCP IN BRAZIL

Profs. Cláudio Bruzzi Boechat and Roberta Mokrejs Paro, 2006

Abstract

This case study portrays the experience of VCP, a major pulp and paper company in Brazil, in its attempt of an innovative and proactive relationship with the surrounding community under circumstances of latent conflict.

Brazil has very high income inequalities and widespread poverty, especially in rural areas. Access to and ownership of land has been a very controversial issue, giving rise to a large social movement known as the Movement of Landless Rural Workers (MST), as well as recent state policies in support of rural settlements. However, given the mismatch between the social demands and the capacity of the State to give appropriate responses to meet them, the situation has remained tense.

These land-related challenges and policies have significant bearing on pulp and paper companies, such as VCP. The sector has been also criticized by local movements for its environmental and social impacts.

The company is undergoing major forestry expansions in the State of Rio Grande do Sul, with a business model that includes the local community as eucalyptus production partners, among which are some of the recently established settlements from the land reform programme. The company's programme is supported by partnerships with governmental bodies and universities.

This case study will explore how the company was able to implement its expansion strategy by providing the neighbouring communities with broader opportunities of socioeconomic inclusion.

Introduction

- ***"We have never heard a proposal like this!"***

This was how Ciro Correa, representing the Movement of Landless Rural Workers – MST, reacted in a meeting room at Instituto Ethos, in São Paulo. The proposal that had surprised him dealt with a set of ideas put forth by the CEO of Votorantim Celulose e Papel – VCP, José Luciano Penido. From his seat, the president of Instituto Ethos, Oded Grajew, closely observed the expressions of the others in the room as he tried to guess what might happen after that unique moment.

Actually, no one had ever heard of a meeting like that taking place in Brazil before. A top-level representative from MST, the most prominent organization defending the interests of landless rural dwellers; the president of VCP, a company that belongs to one of the largest private groups in the country; and the president of Instituto Ethos, the most active and well-known organization promoting corporate social responsibility in the country and one of the creators of the World Social Forum – all discussing the company's proposals for a new standard of relations with MST in the State of Rio Grande do Sul (RS), the southernmost state in the country. In that region VCP was launching a venture that aimed to establish a large eucalyptus forest complex to supply its future pulp and paper mills. Exactly where MST was born. Exactly where lays the largest concentration of

landless rural workers campsites. Exactly where, in recent years, a high number of land invasions by landless groups led by MST have taken place. All these circumstances pointed to serious chances of conflict.

Before they could reach that point in discussions, Oded had acted as a mediator, which was an important role due to the notorious tension that involves discussions on productive rural activities in Brazil. His presence was a catalyst to the process and broke down barriers, thus allowing the process to move along quickly to the issues that really mattered: to discuss what was needed for all parties to benefit from VCP investments in RS.

It was a risky bet. If they managed to reach a minimum agreement as to the main issues, it would mark the dawn of unprecedented relations among companies, landowners, settled²⁹ peasants and the landless people in Brazil.

Penido's ideas were innovative: he proposed to integrate landless and settled peasants into the production process; to bring together technological, financial and physical resources; to refine the government body of RS.

Ciro Correa had to take political restrictions into account, as MST takes an embattled stance in its attempt to build new and more inclusive standards of living for the country's rural population. The situation has had structural reasons for tension, as land occupations are perceived as the main means to obtain access to land, and given the enormous mismatch between the social demands and the capacity of the State to give appropriate responses to meet them. In this context, MST became stronger as it provides some visibility for the rural poor, emerging as a legitimate and significant interlocutor for the discussion of new projects affecting their conditions.

In spite of it all, the mood of the meeting was pleasant and people wanted to listen to what the others had to say. At the end, Ciro wrapped up the meeting by saying that he needed to consult the MST leadership before giving a definite answer.

He had the answer about one month later: MST did not want to get involved!

The reasons why MST ignored the proposal and removed any chance to reopen a dialogue are not officially declared. They can be deducted from the clear-cut stand of the Movement on the subject of homogeneous and massive forests. The movement defends another development model, one that excludes large-scale agribusiness. Thus, there is the permanent possibility of invasions.

Part I – Looking Behind the Conflict

The meeting at Instituto Ethos stumbles on the Brazilian agrarian issue, becoming opportune herein to put this situation of latent conflict into perspective. More than of mere historical relevance, the conflict's underlying problems represent a crucial challenge to advance Brazil's competitiveness and development in the future: the unequal access to property and its consequences to the high level of income inequality. Without this in mind, the search might be for the solution of a "conflict" in itself, when actually the reasons that create the conflict offer much richer elements for business innovation towards sustainability.

29 The settled peasants are former landless people recently "settled", i.e., acquired small plots of land through the governmental land reform programme.

The Roots of the Conflict

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 of one sixth of the production. Since then, despite of the evident transformations undergone in the Brazilian society in the last 30 years, with the agricultural sector becoming an efficient and competitive sector of the economy, the property structure has kept strongly concentrated (Buainain and Pires, 2003). The stable trend of land concentration can be observed by the Gini Index³⁰: 0,837 in 1972; 0,854 in 1978; 0,831 in 1992; 0,843 in 1998; and 0,802 in 2000 (MDA, 2001). According to the Ministry of Agrarian Development, 45% of the agricultural area is concentrated in 1% of rural properties, what contributes to place the country as having one of the world's most unequal income distribution patterns (Rosseto, 2006), and hinders local development by forcing migration to the cities³¹.

In a joint publication by FAO and the World Bank, Teofilo and Garcia (2003) point out that the process has recently become more evident as rural populations displaced search for other means of survival. Due to that, they say, "violence and conflict in rural areas have grown, further necessitating societal intervention".

Meanwhile, recent evidences have led some authors to argue that the distortions of this agrarian structure are not going to be corrected by themselves, as the economy grows (see Dercon, 2003). Buainain and Pires (2003, p.36) state that: "[...] more than 100 years passed the end of slavery, the existence of poverty and unequal asset distribution in rural areas makes evident that the market is incapable of overcoming this type of distortion". The challenge, with negative consequences for both rural and urban development, requires more focused measures.

The land distribution debate comes in this context not merely with an ethical or aid character. The consequences of property and income distribution inequalities to Brazil seem to go beyond unemployment and all the impacts associated to social exclusion, both in the rural and urban areas. They can also bring inefficiencies and reduce the economy's capacity to grow (see Buainain and Pires, 2003; Deninger and Squire, 1998; Stiglitz, 1998; Dercon, 2003).

However, in order to reap the alleged social and economic benefits in practice, other supporting measures are necessary, the lack of which is equally social and economically damaging.

As Teofilo and Garcia (2003) point out, property rights are just one of the constraints in the process of increasing opportunity for the rural poor. Besides facilitating access to land, he remarks, "the State must ensure through its policies that the squatters have access to other markets, including credit, products, inputs and technology markets". Without that, the settlements can be reduced to a temporary survival for the families (Navarro, 2002).

Thus, more than access to land, addressing rural poverty requires providing the conditions to *keep* the farmers in the land. The same type of problems, therefore, faced by all "small farmers", be them traditional or recently settled ones. Before reaching the *conflict zone* of the problem, this is the core issue that VCP can help tackling.

³⁰ The Gini Index varies from 0 to 1, and the closer it is to 1, more concentrated is the attribute measured.

³¹ According to the Brazilian Institute of Geography and Statistics, only from 1999 to 2001, 5.3 million people left the countryside. From 1985 to 1996, were closed 941.000 producing units, 96% of which smaller than 100 hectares (Rosseto, 2006).

In a context of scarce capital but abundant labour and land, the fact of being labour intensive places family-based agriculture as a key component of local development, benefiting the formation of social capital, social inclusion and economic growth (see Guanziroli, 1999; Veiga, 2001). According to the National Programme for the Strengthening of Family Agriculture (PRONAF), the participation of family-based agriculture in the GNP in 2003 reached 10.1%, corresponding to R\$ 156.6 billion. Representing 85.2% of the total number of rural establishments, and in 30.5% of the area, the small productive units were responsible for 37.9% of the gross value of national agriculture, 50.9% of total income from agriculture, and 77% of the labour occupied in the rural areas. The total income per hectare/year was 2.4 times higher where family work prevails (Buainain and Pires, 2003).

MST: an emblematic icon in a land reform process driven by conflicts

The fight for land in Brazil has been historically permeated by violence, which increased in 1980's as, along with the end of the military regime, the rural workers movement pressured for land – a manifestation of the effects of the agricultural modernisation from the 70's. Increased pressure for land led to increased violence, practiced by the large landowners and the government as an attempt to defend the rural properties (Oliveira, 2001). The number of deaths of rural workers in conflicts in the last decades is periodically reported by the Pastoral Land Commission.

Land conflict and the lack of more aggressive land policies encouraged important social movements, led by MST, to employ 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 access to land³² (Teofilo and Garcia, 2003). Parallel to that, in 1996 it is also instituted a governmental programme dedicated to strengthen family-based agriculture (PRONAF).

The importance of MST in this process is 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 (Guanziroli, 1999; Navarro, 2002; Veiga, 2001). MST gained enormous visibility due to its offering an opportunity for many economically excluded groups without any political power (former small producers displaced by the large farms to marginal areas, landless workers, migrants from urban peripheries, etc.).

In 1997, referring to the episodes of violence against rural workers, Tavares (1997) argued that the Brazilian society unfortunately only realizes the underlying conflict by its resulting tensions. She argued that it was only through MST that the potential conflict regained visibility as the "peasant movement", reached "a social expression and a mobilisation capacity that allowed the feasibility of legitimate claims, questioning simultaneously State's inertia [and the hegemony of the conservative large property owners]". The occupations, however, had become decisive to fuel the land reform programme (Navarro, 2002).

Today, the political scenario has apparently not changed much. The government's support of land reform is being criticized for not meeting its promised goals (see Oliveira, 2006), even though the current government is politically aligned with social movements such as MST. Conflicts still exist, with violence arising both *against* the rural movement and *from* it, as governmental action ends up responding to relief the tension, instead of avoiding it.

³² The demand for land reform is between 3-4 million families.

MST has its internal peculiarities when thought from an institutional perspective. In an article that discusses MST's internal organisation and politics, Navarro (2002) has mentioned that, as a political organisation, and in order to preserve its national dimension, MST can limit the autonomy of local and regional social forces, and has acted as a hindrance to the very emancipation of the rural poor. The author states that, "with perverse irony [...the organisation has become...] a significant hindrance to the construction of new and promising rural development processes in Brazil, thus assuming an unexpected and unsuspected conservative face" (Navarro, 2002, p.24).

It is important to point out that the relationship between MST and the new settlers, former landless people, remains even after the land is conceded by the government, reason why the Movement is seen as a relevant interlocutor for both rural groups. As mentioned above, other small farmers, not originated from the land reform programme, also had their needs gaining more visibility as MST became stronger.

A closer look in the pulp and paper sector

The inequalities born with the agrarian issue find an aggravator in the Pulp and Paper sector in Brazil. The criticism is due mainly from the sector's activities in the States of Bahia and Espírito Santo, and are related both to the social and environmental impacts of large scale eucalyptus plantations³³. In the 1970's, as the plantations expanded, small farmers, rural black communities (descendants of runaway slave communities, the *quilombos*) and indigenous communities were pressured to marginal agricultural areas or, by losing their subsistence means, ended up migrating to urban areas to live in poor conditions. The process has led to a high land concentration and valuation in the region: in the city of Aracruz, only one company owned about 40% of the territory, through the annexation of 244 properties (Calazans, 2002).

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

Part II – VCP: Planning the entry in Rio Grande do Sul

The geopolitical context in RS is fairly risky. Some farms are surrounded by campsites with around 100 landless people³⁴, in a situation of clear antagonism in relation to the local larger landowners and constant fear of invasions. The tension level, on top of the economic stagnation associated with cattle breeding, had led many big farmers to sell their land to move their production to Uruguay, resulting in land devaluation in the region.

The local atmosphere of social unrest, in the view of the regional and national agrarian contexts previously portrayed, posed clear challenges for the implementation of VCP's 100,000 hectares of eucalyptus. Penido, the company's CEO, says that the main question posed was: "How can the company grow and incorporate more land, if we run the risk of being easy target in the clearly socially unfair Brazilian reality?".

³³ Several civil society organizations acting in these regions established the Alert against the Green Desert Network (Rede Alerta Contra o Deserto Verde).

³⁴ These are campsites of landless people who claim land, therefore not yet granted by the land reform programme.

The concern was not just about the possible occupations or conflicts. The company would see a clear difficulty in thinking in larger and larger properties and long term eucalyptus planting if a significant part of society does not see value in the company's operations, either for the connotations associated to monoculture, or for being thought as not contributing to the social scenario in Brazil because "one can not eat eucalyptus". This was definitely not the type of repercussion intended for VCP's entry in the new region.

Implications of the agrarian context in RS for VCP

Rio Grande do Sul is affected by the same historical agrarian problems as the rest of Brazil, with an aggravator: it has the highest concentration and historical tradition of small property and family-based agriculture, and producers there are politically better organized. Protests against the effects of agriculture's modernization on its rural community are at the root of MST's formation, in the 1980's. According to Navarro (2002), it is in RS where MST first tested all of its initiatives, later repeated nationally.

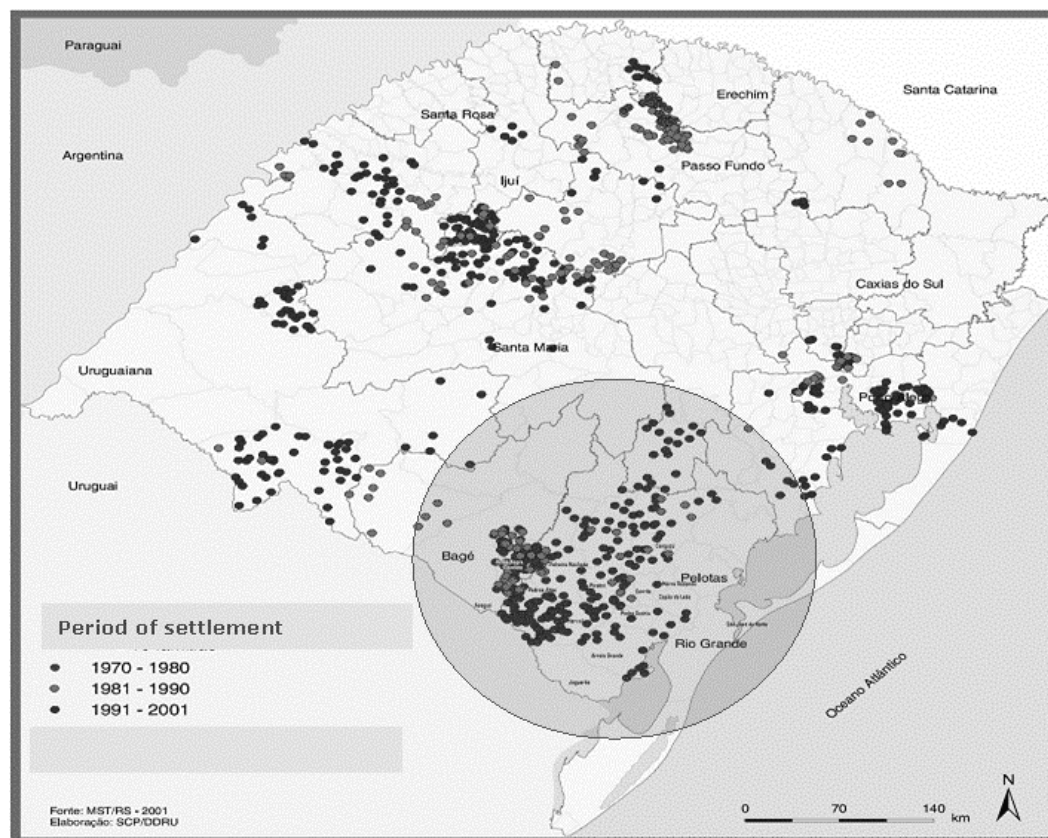


Figure 1 – Geographical region of VCP's venture and neighbouring settlements

The radicalization process has recently taken place, such as the recent destruction of eucalyptus nurseries of another expressive pulp and paper company, however, has caused strong criticism. Recently, it is in this region, perhaps, where the power relations between MST and the large landowners have most explicitly changed. A peculiarity of the region is the presence of hundreds of settlements generated by the land reform programme (see Figure 1), but access to land was not followed by the necessary resources and governmental assistance for agricultural production. In the face of the multiplication of MST's main mean of pressure – land occupation –, the region has seen a growing fear among the large landowners. Navarro (2002) points out that this inversion

of power, given the past political dominance of large landowners, is perhaps one of the most remarkable results of MST's history.

Thus, the agrarian context in RS have put VCP in a delicate position. This poses a clear challenge to VCP's plans to start activities in the region, where we can identify two major issues to be addressed:

- 1. Socioeconomic:** The potential land concentration effects of agribusiness, where smaller properties are specially vulnerable;
- 2. Environmental:** The local-regional environmental impacts of eucalyptus, particularly on biodiversity and on the water system.

VCP, the Company

Votorantim Celulose e Papel S.A. is among the largest companies in the pulp and paper sector in Latin America, and a national leader in hardwood pulp, thermal papers and other special papers. The company operates in Brazil and internationally, and also 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.

VCP's pulp is 100% originated from eucalyptus planted forests, creating a competitive advantage that brings superior commercial results with Europe, Asia North and Latin America. The company has stocks at São Paulo (Bovespa) and New York stock markets, and participation in other expressive companies from the sector, such as Aracruz 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

In 2003, planning the expansion of its activities, the company had mapped the alternative geographical areas to implement a new industrial park, not only within Brazilian territory, but also in Latin America, Africa and Oceania. The south half of RS was chosen mainly for its productive advantages: good logistical conditions, land and labour availability, climate conditions and topography appropriate to eucalyptus, good water supply and high education level. The goal was to have 100,000 thousand hectares of eucalyptus implemented in the area by 2011. By then a pulp mill might be set up in the region.

Penido was hired as VCP's president at the beginning of 2004, as part of the efforts made by Grupo Votorantim to move away from its family business traits. He had presided over Samarco, a mining company, for approximately 10 years. During this period, Samarco had excelled in its integration with surrounding communities while at the same time posting differentiated results in terms of management quality, productivity, employee satisfaction and shareholder returns.

As soon as he took over the running of the company, Penido promoted the application of the systemic treatment methodology. "Systemic treatment is a way of planning the future by taking into account complex events we cannot control", he says. The method consists of assessing a problem to its full extent so that, as events unfold, new plans can quickly be drawn up in case scenarios should change.

Some 40 top-level company executives then prepared a vision for the next 15 years – relatively short term for a business that runs in 7-year production cycles. The resulting strategic planning projected the company to become the world's one of the biggest shapers of eucalypt pulp, with a three-fold annual net income increase through the expansion of pulp and paper production. This meant to go from a net income of US\$ 1 billion (in 2004) to US\$ 4 billion in 15 years.

If it wishes to grow, a paper company must plant. There is a traditional paradigm in the paper industry that calls for depending as little as possible on third parties. In this case, the company, with capital enough to buy land, plant and harvest whenever needed, is thus in a more comfortable position: it buys only if price conditions are good. This model is very common in agribusiness, but could bring negative effects in the company's relations with the surrounding community.

Thus, if a paper company wishes to plant with society's acquiescence, it must do so in an environmentally friendly and socially inclusive way. This is not new in the pulp and paper sector, and VCP was not different: It established that 30% of the timber used in the production should come from third parties, which set aside the logic that excluded local farmers from the business process.

However, this was not enough, considering the social and political conditions of RS. The main risk were the instabilities associated to the local agrarian reality. The process of rethinking the future required more appropriate ways of doing business within a better structured and demanding society. VCP had to go further.

Part III – Building Reliable Business Linkages with Local Communities

On balance, one can stress some key aspects of relevance for the case:

- The support for small farmers, be them traditional farmers or recently settled from the land reform programme, is currently scarce but pointed as having an important role to play in social inclusion, economic growth and development;
- However, in order to actually *start up production and keep the farmer in the land in the long term*, financial and technical resources are essential. This is where VCP can provide an important contribution.

The group herein denominated as small farmers is constituted by traditionally agricultural producers, and by families recently settled by the land reform programme. Irrespectively of the background difference, both groups have similar needs in what comes to their sustainability, are in the verge of social-economic exclusion, and therefore can benefit from the same policies, be them from the government or the private sector. **Poupança**

Florestal (Forest Savings Account)

The company was left with the task of elaborating a working plan that allowed VCP's neighbours to earn money and be economically included in VCP's business. By benefiting the neighbours, this sense of inclusion could also contribute to legitimate VCP's operations in the region.

The definition that VCP would have a least 30% of the wood coming from third parties would require 30,000 ha coming from partnerships with the local community, whose trust was still to be earned. However, in order to achieve that, another problem had to be tackled: there was no culture of planting eucalyptus in the region. More than the absence of know-how, there was no capital for that, neither to plant, nor to wait the long time until the forest can be cut. It was then that VCP created the programme Poupança Florestal.

Through Poupança Florestal, the bank provides the farmer with financial resources, and VCP provides the seedlings and technical assistance to plant eucalyptus, committing to buy 95%³⁵ of the wood after 7 years. The value paid for the wood is corrected by the same index as the loan. Banco Real was the only bank in Brazil that accepted the conditions proposed by VCP. Maurik Jehhe, credit analyst, said that VCP's intermediation, the possibility of gaining new clients for a long term relationship and the obedience to the bank sustainability guidelines were strong reasons for accepting it.

For achieving the goal of 100,000 ha of eucalyptus in the southernmost part of RS, the actual area contracted should be much bigger, demanding a broad participation from the local community.

POUPANÇA FLORESTAL

Financial Facilities and Income Alternative

- The financial resources for planting are provided in advance, from the first year. The loan is provided to the producer by Banco Real (interest rate: 9% a year, considered lower than the usual).
- Instead of the property (land), the producer offers the wood as guaranty.
- The Programme guarantees an alternative income for at least 14 years (2 cycles of eucalyptus production).
- With the amount financed, the farmer can buy production inputs and remunerate the labour for planting eucalyptus (seedlings and technical support are provided by VCP).
- The amount financed is equivalent to VCP's own costs to plant the forest. Thus, the farmer can hire the same company that carries out the planting for VCP, or, instead, learn how to plant, in which case the amount saved is his. This allows the family to be employed on the production, providing jobs and profit.

Technical Support and Capacity Building

- VCP provides seedlings of eucalyptus and native forest for reforestation, at no cost. In order to guarantee a good productivity, VCP provides the same genetic material used in its own forests.
- Emater (Technical Assistance and Rural Extension Agency) is contracted for 10 years by VCP to provide technical assistance for planting the forest.

Guaranteed Sale and No Harvest and Transportation Costs

- In 7 years, VCP is committed to buy 95[0]% of the wood, for a previously established price (currently set as R\$ 18,00/m³, the regional market price, corrected by the same index as the loan). The company pays for the harvest and transportation of the wood.
- If, by the time of the harvest, the market value of the wood is lower than the established by contract, the latter prevails, which represents a low risk for the producer.

Agrosilviculture

- If the farmer prefers, it is possible to combine eucalyptus with other cultures, such as grains, cattle and lamb breeding.

Contractual requirements

- Compliance with the environmental legislation.
- No use of child and forced labour.

³⁵ 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 for a higher price.

Property Planning: Mixed Crops and Rational Use of the Land

In order to avoid the dependence on eucalyptus, as well as the disruption of the economic culture of traditional crops such as corn, rice and cattle breeding, the Programme establishes that 50% of the property is kept with the original crop. In the other 50%, it has to be ensured the respect for the legal minimum of 20% of the total area set aside for preservation, and the permanent protection of the surroundings of water bodies (other 5%), which leaves at most 25% of the property with the potential to be allocated for eucalyptus.

The planning of plantation and preservation areas is made under the initial training phase, by the farmer together with the technicians provided by the public agency EMATER (Technical Assistance and Rural Extension Agency).

Extent of Community Involvement: Minimum Viable Size and the Settlements

The Programme encompasses various producer profiles – owners of large, medium and small properties – as partners providing the land for eucalyptus production.

And then another matter came into question: what would be the smallest property size to participate? Considering the recent economic stagnation in the region, the smaller farmers were the most affected, and particularly a certain group: the ones recently settled through the land reform programme. They now own the land, but have insufficient resources or support from the government to invest and get into the market.

The region where VCP planned to expand its activities had 4.648 families settled (in 133 settlements) by the land reform programme along the last 25 years. New in the status of "land owner", but having MST's camping sites as background, the neighbours would see them as agitators. For VCP's Programme, however, they fall into the same category as their other peers: today they own land and can therefore be potential partners in the Programme.

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. In order to make such small forests economically viable, planting is always done in adjoining properties within a 5 km distance. This would facilitate the logistics and avoid that the farmers would harvest the wood themselves – what might bring the risk of accidents.

Until today, about 30-40 settled families have joined the Programme, usually with 5-10 ha each. As more plots join, the local agglomerates can produce a constant supply of timber on a scale that is large enough to justify a self-sufficient organization within the company.

"Thus, managing regional offices becomes quite easy", says João Afiune Sobrinho, operational manager for RS operations. Regional offices manage to support themselves economically by "selling" timber to the mills, in simulated trade relations within the company itself. Trees are planted and cut in each region every day. The transport solutions used are those that best fit the characteristics of each region.

This was equally important to allow the inclusion of traditional small farmers, which includes family-based agriculture. This group faced, if not the same, a similar type of difficulty to make their production viable, lacking financial resources to invest in the production and to wait for its long-term returns, as well as technical assistance for start up and maintenance of such a naturally risky business as agriculture. By working closer to small farmers, providing capital, capacity building and constant technical assistance,

VCP can provide the conditions for their inclusion in the market – which represents not only job opportunities, avoided migration, and food security, but also the sense of belonging and the chance of a more consistent social insertion.

Income Alternative

The partners of the Programme start by receiving EMATER's training, and in the first year receive the credit to implant the forest. By doing the labour activities themselves (ant and grass control, etc.), the amount foreseen to be allocated for these activities (which is 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, in the end, the producer's profit can roughly reach the market value of one ha in the region.

Part IV: Organizing operations in the southernmost area

Regionalizing operations

Before beginning operations, VCP had marked out all the desired area for project feasibility, and knew well the problems it would face both with road transport and with settlements. However, not all happened as planned. Opportunities and problems cropped up, which called for quick decisions. At the outset, for example, the Real/Dollar exchange rate rose by more than had been expected and the price of land rose together with it; thus, it became impossible to buy land as planned in a certain region. The strategy to guarantee a maximum distance between forests and the places where a future mill might be set up had to be sacrificed.

It is much more difficult to manage forests in geographically disperse properties than it is to do it when they are concentrated around an area. Transportation costs rise and harvest planning grows more complex due to the heterogeneity of tree sizes and planting times. The resulting dispersal would increase the cost of timber for the mill and fall outside the limits established by feasibility studies prepared for the venture.

This mosaic – plots of land of different sizes interspersed with preservation areas and other crops –, becomes even more diversified when land owned by third parties is added to it. Pousança Florestal contracts get to be signed as the venture moves along; even so, negotiations with landowners lead to variations in planting time and, consequently, in harvest time.

From a management point of view, there is no way out except to configure operations as land is acquired. Little by little, there appeared some distinct regions in terms of planting times, and managers began to differentiate among regional working offices. These are geographically close regions that can produce a constant supply of timber on a scale that is large enough to justify a self-sufficient organization within the company.

"Thus, managing regional offices becomes quite easy", says João Afiune. Virtual regional offices manage to support themselves economically by "selling" timber to the mills, in simulated trade relations within the company itself.

Environmental Concerns: Mosaics of Commercial and Preserved Forest

VCP's growth strategy had to take into consideration also the environmental impacts normally associated with agribusiness: compliance with the environmental legislation, with special care for legal reserves and permanent protection areas (surroundings of

water bodies³⁶). Although environmental legislation compliance should be a basic condition for the operation of any agricultural business, unfortunately this is not true for the large majority of cases. According to the company, this is valid also for RS, so VCP had to incorporate that requirement in all the contracts with the partner farmers participating in the Programme.

The result is that the permanent preservation area is exceeding the estimates: at the moment, it has reached an average of 55% of permanent preservation area and 45% of planted area – in São Paulo, the average for the company has been around 50% of preserved area and 50% of planted area. The high preservation shares are explained by higher margins than the binding ones being set for the preservation of sensitive zones around lakes, rivers, and slopes.

Because the 50% of permanent preservation area is not concentrated in one block – as is not the planted area –, the result is a mosaic very different from the monolithic plantations that usually grow across preservation areas and create multiple regional socioeconomic and environmental impacts.

Agroforestry and Eucalyptus: Controversies and Joint Studies

Another important aspect of the mosaic-type distribution of the planted forest 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, agrosilvopastoral 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, here too the controversies around eucalypt can not be neglected, as well as its potential for conflict. As eucalypt is a fast growth tree, and seen as demanding of soil nutrients and water, there is also a debate on its adequacy to agroforestry systems (see Sungsumarn, 1996). A characteristic of eucalyptus is its strong adaptability to diverse soil and water conditions, due to its long and deep root system. Moreover, it is a species very competitive in relation to the surrounding plants, bringing, in some conditions, risks of desertification and biodiversity reduction. However, it is often argued that these negative effects can be avoided with proper management techniques (see Couto and Betters, 1995), and a key component for the success of the Programme is to ensure that the technical and environmental orientation is followed correctly. But not only that.

Beyond the requirement of adequate soil and native vegetation management practices, and well aware of the criticism that the introduction of eucalyptus in small properties might raise, VCP has established university partnerships to watch closely the possible adverse impacts of eucalyptus introduction in the region.

One of the partnerships includes the Federal University of Santa Maria and the Albert-Ludwigs-Universität Freiburg (Germany) in a joint study to monitor parameters such as soil, atmosphere, water, nutrients and light conditions for eucalyptus plantations and its interaction with sorghum, soy and forage crops – the agrosilvopastoral system – in the south of RS. The study intends to carry out several measurements throughout a 7-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. The study will allow the assessment of inputs and outputs in the system, and

³⁶ 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.

among its objectives, are: (1) the assessment of rainfall quality and quantity inside and outside the forest and the understanding of the water consumption by eucalyptus and forage (or vegetation); (2) the measurement of nutrients transference from plants back to the soil; (3) the measurement of light conditions as the forest grows in the different systems (only eucalyptus, or agroforestry systems mixing eucalyptus, sorghum, soy, forage and animal breeding) and its consequences to the native and exotic forages, so as to establish a minimum distance between trees to avoid shadowing impacts on the forage production; (4) the recommendation of an appropriate fertilizer management to minimize environmental impacts.

Although the first monitoring experiments of VCP in RS were installed in 2004, VCP has already been testing the integration of silviculture with agriculture and cattle breeding for more than 10 years in Vazante, in the State of Minas Gerais. The transfer of the best methodologies to RS, to be used for medium and large producers, are hoped to provide the production of good quality wood with lower costs, besides the generation of alternative income during the wood cycle. Totalizing an area of 1,000 ha, the experiment had in the first year eucalyptus planted with sorghum; in the second year, with soy, and from the third to the seventh year (when the wood is cut), it will be formed forage for cattle breeding. According to João Afiune, it is early to celebrate, but the results so far have been good.

Other partnerships (fauna, flora and architectural heritage inventorying and monitoring) include key universities of the region, like the Universidade Católica de Pelotas, Universidade Federal de Pelotas and Universidade Federal de Santa Maria – all important not only for their familiarity with local problems, but mainly for their relevance in the agricultural area. The economic impact of VCP's entry in the region called for partnerships and intense talks also with local trade unions and municipalities.

Avoiding invasions

The occupation strategy coordinated by MST and other organizations that defend the rights of landless rural workers has, in the last few years, worked against all the companies that own large tracts of land. In the months of March and April, 2006, there were a series of invasions throughout the country to pressure the Brazilian Government into speeding up agrarian reform. Land tracts belonging to several pulp and paper companies were invaded, except for those in the south of the country that belong to VCP. Last March, Aracruz, the largest producer of bleached eucalyptus pulp in the world, saw its research laboratory in Barra do Ribeiro County (RS) destroyed by a rural women movement.

In the same week, orders were given to invade VCP properties, but things did not work out as usual. Incited by local MST leaders to invade the properties, the landless rural workers refused to do so. Local farmers and neighboring settlers spent the weekend at the campsite and there was no invasion.

A second attempt was made a few days later. People were brought over by bus. "They took a small pennant and stuck it to the gate", says João Afiune. VCP reacted quickly, everyone was removed from the property and advised not to resist. As they had been warned in time, VCP employees managed to get in touch with the police and it cut the invaders' trip short.

The police then remained on the property. Some buses full of people arrived two days later. Not knowing what to do, the would-be invaders gave up and left. The third attempt had also gone wrong.

PART V - Obtaining a social license to operate

In Penido's words, one of the main challenges was to establish a business strategy that would gain a legitimate license to operate from society – from the small producer, to the small opinion shaper, the forest partners, and public opinion in general. VCP has adopted some practices to be able to guarantee the building of trust relationships with society.

Communication and conflicts

One of the challenges in facing the conflicts stemming from the interests and needs of all kinds resides in being in permanent communication with local communities and the media. We would like to point out two examples.

On May 22, 2006, the virtual newspaper "Brasil de Fato" published a piece of news under the headline: "Votorantim affects *quilombolas* in the south of RS", in which it denounces that large cellulose companies were promoting environmental, social and cultural degradation (Vargas and Cassol, 2006). Regarding VCP, the news mentions Palmas, in the town of Bagé, where the company allegedly created just one job for local residents. There is one sentence that illustrates well the temperature of the debate: "(not hiring local workers is a) way to avoid contact with the local community, which symbolizes the security strategy of someone who is committing very serious crimes".

Soon afterwards, on July 30, the main newspaper in the State, Zero Hora, published two articles in which VCP was mentioned. In the first one, the investments made by pulp and paper companies were important elements in the analysis made of proposals put forth by candidates running for the governorship of the State. In the second one, under the headline "Green Polemics" (Ritzel, 2006), it identified the main polemics related to 3.5 billion dollars' worth of investments that would be made in 7 years by Aracruz, Stora Enso and VCP: a green desert, a threat to the biome of the pampas, species extinction, lack of water and jobs, and rural exodus.

This reflects some of the main criticism raised against the pulp and paper sector's activities in RS (including VCP), much of it concentrated in a publication recently distributed called "The Latifundia of Eucalypt" (Via Campesina, 2006). Apparently, communication is so difficult that the publication puts the rural women's action against Aracruz – under the organization of Via Campesina itself – as the awakening for a "broader debate about the green desert, [until then] blocked from the public at large".

It has been vital to keep communication channels open with the population and the media to be able to clarify and modify plans when necessary. Lectures, interviews and meetings with the communities are among the activities performed.

Prioritizing local businesses, the purchase of local inputs, and hiring local people

The company seeks to prioritize local businesses, the purchase of local inputs, and hiring local people. The largest eucalyptus plantation in Latin America is being planted by VCP in Pelotas. Near the plantation there is a village that is famous in the region for being full of "activists, drug addicts, drug dealers and outlaws from this area", says João Afiune. "A series of problems cropped up right at the start of implementation: fences were cut, trucks and wire were stolen. Then we began to hire people who lived in the village to work for us. Soon afterwards there were no more robberies".

Establishing labour relations with peasants from the settlements

All contractors working in the plantations come from RS, and they employ about 900 people. "Less than 50 people come from other parts, and many of them come from settlements", states Penido. "I believe the great social contribution we have been making lies in helping defuse potential conflicts [between new settlers and traditional local] landowners."

The settlers who are hired receive special attention. Besides having all of their labor rights guaranteed, they are assisted by an employee relations team, made up of people from VCP, from the contractors and from Emater. Proper working uniforms, transport, training, food and health care – all basic things to bring the settlers up to normal working conditions and productivity standards.

Establishing partnerships with local entities

Working partnerships were sought with key universities and study centers. Besides the environmental studies previously mentioned, there is also a project with the University of São Paulo that aims at building an assessment system of the impacts of VCP's activities in RS, based on socioeconomic indicators of local development and sustainability.

However, the most fundamental partnership has certainly been the one with Emater (Technical Assistance and Rural Extension Agency). João Afiune calls it a strategic partnership: "Emater became very interested when they saw our program, as it was aimed at small farmers. It dealt with technical support and with keeping the crops being planted in the region. It dealt with bringing in another crop, thus giving small and mid-size producers another chance. All of this captivated Emater to such an extent that they joined in".

Fernando Roldan Alves is the Emater employee who is responsible for the link with VCP. In one part of his report he told us how he carries out his work and how he feels about it:

- You design a project and go see the guy and he says he wants to plant 6 ha of eucalyptus trees and you go there and plant them. And you schedule a day and go there and it has all been planted. You get there and you can see the work the landless peasants have done. This is really great. We were not used to this kind of stuff and we do not have the resources needed to carry it out. That's the truth. And those 6 ha must be overseen, we collect some material, we have to control it. There are 500 ha out there and this fellow is going to sell the land cheaply because he has no resources? Well, now he can prosper. They are planting and making money that ends up being spent right here in the region.

Partnerships with universities, together with governmental bodies and trade unions, allow that the discussion on the social and environmental effects can be based on primary data from the local social and environmental conditions. Moreover, they can also contribute to promote a *joint* and closer analysis of the actual situation in the region, so as to quickly correct possible problems and maximize the positive outcomes for local sustainable development.

It is important to mention the existence of civil society organisations who oppose VCP's/eucalyptus entry in the region, and whose closer participation in the monitoring processes would be important both for the company and to society.

Final Comments

VCP's programme would surely be enriched if the dialog with MST, the strongest civil society representative of settled farmers and family-based agriculture, was kept, the proposal's weaknesses pointed out, and mutual needs exposed. Despite of the main interlocutor leaving the scene, VCP's differential is to attempt contributing to the core problem, which is the provision of conditions so that access to land can represent social emancipation to an important part of the rural population living in poverty.

More than speculating about the reasons for MST's "negative" response (or lack thereof) to VCP's proposal, this fact indicates the multitude of factors behind the success or failure of the negotiation process. MST's response indicates a failure in the dialog process. On the other hand, one can not dismiss the fact that members of the movement's base have adhered to the proposal and the Programme is up and running. Although this turns the need of more dialog even more evident – not to mention transparency in it –, the key point for a company genuinely interested in providing positive contributions to the conflict's resolution is the focus on the systemic roots of the problem. In this case, not the conflict and insecurity in itself, but the unmet demand for land, initially, and then for financial resources and technical assistance for production, which the State has been incapable of satisfactorily supplying. Now, if the potential for cooperation fall into the hands of individual new settlers and traditional small farmers, the potential for conflict remains associated directly with the Movement in itself, who might lead new land occupations by its landless members.

The case shows also the complexity of implementing innovative endeavors in a situation of latent conflict, which makes hard to have an interlocutor. Direct dialogues are essential so that the legitimate concerns can be identified and addressed, clearing away the ideological barriers that usually immobilize both sides in this kind of conflict. To provoke a broader debate with the media and other segments of society, above all the ones who are critical to this kind of project, would bring other points of view and help identifying possible caveats, while allowing the company to anticipate risks and challenges, and possibly earn more confidence from society as a whole.

Commenting about the results of the meeting at Instituto Ethos at the beginning of 2004, Oded Grajew says that the results they wanted have been reached. "The VCP project effectively shows that Brazil has all the resources needed to solve its problems: people, workers, infrastructure, banks, universities, companies and social movements. All we need is to be wise enough to use our own resources to overcome our actual gaps."

An enlightening experience at the Ana Paula ranch

Until 5 years ago, the Ana Paula ranch was the largest beef producer in the State. The former owner, a tradesman from Novo Hamburgo, had bought 15 thousand ha of land upon which he built an excellent production system. As he enjoyed fishing, but was afraid of the settlement peasants who time and again invaded his property, he had a house built at the top of a hill, where he could stay during his fishing excursions. He only used this house once before selling his property to VCP and moving to the Uruguayan side of the border.

It was in this house that we were received as guests to learn about the stories of the region. We were talking round a table. The living room was large, with glass windows and doors in all walls which allowed us a panoramic view of the landscape around us. The cold *minuano*³⁷ blew in through the broken glass in the windows. The ceramic tile floors, the bare walls and the absence of carpets made us imagine how pleasant it would be to light up the large, useless fireplace. As we shared a gourd of *chimarrão*³⁸, we listened to Adalberto, the local VCP contractor, tell his stories.

"This property is literally surrounded by settlements. There are about 100 settlers working for us. The local farmers said we were crazy when we began to hire these people. The Bagé region is an area of conflict". Having worked in the region for many years, Adalberto knew what he was talking about. He had witnessed many families of settlers being abandoned in wooden houses and in unproductive land. Cold and rough winters forced them to progressively use up some of the rooms in their houses to feed the bonfires that kept them warm through the very cold nights. They slept by day, when the sun offered them a little free heating. More than once he ran across the dead bodies of people who had died from the cold by the wayside. Stealing, seeking comfort, escape and warmth in alcohol seem to be natural ways out for people under such conditions. Being notorious as "outlaws" stuck to this group of people.

José Maria had already told us some things about it when we had chatted in São Paulo a few days earlier: "And then we thought: with so many people around, why do I have to look for workers away from here? Let's try to give these people a chance to earn something here. To our great surprise, these people have a tremendous amount of discipline". Before they could reach normal productivity at planting eucalyptus shoots, the settlers had to be fed, clothed and trained. Adalberto began to find out about their weaknesses slowly and looked for ways to cure them. Were they hungry? He had a field kitchen set up. Were they cold? He had warm clothes brought in. It was at this time that his partners began to worry: how can we spend more money on workers who do not perform? Little by little, productivity rose and the results appeared.

A lady had been coming into the room often to check up on our conversation and ask us if there was anything else we needed. She then told us lunch was ready. We learned that she was one of the settlers who had been hired by Adalberto's company. She told us in a corner of the mess room: "(Mr.) Adalberto is an angel from Heaven!"

We went out to the fields to visit a nearby forest. Adalberto says that other landowners began to break off their contracts with his company when they learned he was hiring settlers at the Ana Paula ranch. "They are the dregs of society", they kept telling him. Pointing to the rows of eucalyptus trees planted in perfectly straight lines from East to West, as far as the eye could see, Adalberto said proudly and with his eyes full of tears: "It was the dregs of society who planted this wonderful sight".

³⁷ A wind that occasionally blows in over the RS plains from the South Pole.

³⁸ A hot drink prepared with water and matte tea. It is served in a gourd which is traditionally passed round so everyone can take a sip.

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Banco Real ABN AMRO (09/10/2006)

- Maurik Jehee – credit analyst

Emater –Technical Assistance and Rural Extension Agency (26/07/2006)

- Fernando Roldan Alves – Technical Assistant and Coordinator of Pousança Florestal

Instituto Ethos (16/10/2006)

- Oded Grajew – president of the Council

MST – Movement of Landless Rural Workers (23/10/2006)

- Ciro Correa – Coordinator of the Production, Cooperation and Environment Sector

Tecnoflora – Company Contracted to do the planting (RS) (28/07/2006)

- Adalberto Garcia Pereira – Director

VCP – Far South Unit (Rio Grande do Sul) (26-28/07/2006)

Arnaldo Geraldo Cardoso – Forest Enginner – Agrosilviculture

Cristiano Antunes Souza – Biologist – Environment Research

- Fausto Rodrigues Alves de Camargo – Forest Enginner – Environment and Pousança Florestal Manager
- Clodoaldo Arantes Ramiro – Research Coordinator
- João Afiune Sobrinho – Operational Manager
- Luiz Eduardo Alves Sabbado – Engineer II – Forest Planning

VCP – São Paulo (17/07/2006)

- José Luciano Penido – CEO
- José Maria Mendes – Forest Director for the Far South Operations
- Luiz Henrique Ribeiro de Arruda Dias – Communication and Social Responsibility