
**WHEN CORPORATE STRATEGY MEETS PUBLIC POLICY: THE CASE OF
THE BRAZILIAN PALM OIL INDUSTRY**

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Abstract

The paper presents the corporate strategy of one of leading Brazilian companies in palm oil industry called Agropalma. At same time, Brazilian federal government has launched a palm oil public policy to integrate smallholders and protect Amazon rainforest with strict regulation in environmental and labor standards. The combination between a corporate strategy of markets access and premium prices of palm oil, and the influence of the Brazilian regulatory institutional environment produced two simultaneous effects: 1. Even with a global market share of barely 0,3% of the world output, the Brazilian company lends reputation to the competition in Asia, place whose firms operate with lower environmental standards in a more contested market; and 2. Brazil, through the public policy with environmental and labor regulation creates a barrier of entrance for the Asian competitors from Malaysia and Indonesia, the two biggest palm oil producers.

Keywords: Agropalma, palm oil, public policy, production cost, transaction cost, labor standards, corporate strategy, label, certificate, environmental standards, regulation, enforcement, compliance

When Corporate Strategy Meets Public Policy: The Case of the Brazilian Palm Oil Industry

1. Introduction

The paper has two main objectives: first, it highlights the corporate strategy of one Brazilian company in the market where the country has no tradition at all: palm oil, one of the most important commodity market to supply oil to the food and biofuels chains around the world. Second, it try to explain the expansion in Brazilian palm oil supply and how this overlaps the corporate strategy of the leading company with the federal public policy. It's a synergic case of a 'monopolistic' market with incentives from government to influence transnational regulation with high labor and environmental standards which increase private and public reputation as well.

The most interesting thing is that Brazilian competitiveness in palm is quite low. In market prices, brazilian palm oil cannot face the competitiveness of indonesian and malaysian producers that supply most of world demand of palm oil. Besides that, Agropalma, which produces around 176 thousand tons yearⁱ and represents 0.3% of world production, has an extraordinary influence in modeling Brazilian's public policy and in the negotiations of transnational rules within the Roundtable of Sustainable Palm Oil (RSPO). Without size power, how to explain the leading Agropalma position in RSPO? What's the main sucessful elements of Agropalma palm oil operations in Amazon rainforest that explain their influence in brazilian public policy?

The world output of palm oil is concentrated, adequate to tropical regions which presents high temperatures and indices of rain. Even though the palm plant is native from Africa, his main world producers are Indonesia and Malaysia. Brazil is placed in 11^o position, with an output of around 450 thousand tons, and a domestic demand of 400 thousand tons, the majority (80%) destined to the food industry, and chemicals (20%).

The Asian model, based in the integration of the smallholders with processors and refiners comes with strong governmental incentives for the companies. This production model started in the 1960s, first in Malaysia, and than in Indonesia and Thailand (Table 1). In Brazil, the government defined a public policy for the palm oil based in compliance with labor and environmental regulations and inclusiveness of smallholders, under settlements of

land reform and a social program called ‘Agricultura Familiar’. Besides that, now it’s forbidden deforestation of the Amazon Rainforest (after 2007). The restrict rule is aimed to foster production in degraded areas which limits palm in less than 2% of denominated ‘legal Amazon’. Embrapa has become the expert and technical agent of federal government because the expertise of the body in set up the areas for palm under soil, rain and management indicators. The same had been made for sugar cane few years ago. In order to monitor the areas for palm and make landholders apply for the financial incentives from government (and public banks as ‘Banco do Brasil’ and ‘Banco da Amazônia’), the methodology used comes from Prodes/INPE, the public body that since 1988 produces the official annual rate of deforestation of Amazon. Since 2002, the advantage of this procedure is the high precision of georeferencing of the polygons of deforestation by satellite (Embrapa, 2010).

The main hypothesis is there is a synergistic linkage between the Agropalma corporate strategy and the Brazilian public policy developed for palm, and from this synergy resulted a strategic plan to project sustainable indicators for palm in the North region of the Country as one answer to contested transnational commodity accused of downgrade in labor and environmental conditions. At same time, Agropalma can obtain ‘almost’ monopolistic profits from the Brazilian market and a provide decisive influence in the configuration of the political sector in Brazil. In section two we present the most intriguing question behind palm oil in Brazil: high production and logistical costs with some indicators from the market and data from the company. How is it possible for Brazilian companies compete in foreign markets with such costs? As Brazil has a strong financial stake in expand palm oil, what’s the main objective behind palm public policy? Is the public policy business-driven or Brazilian government truly believe in the competitiveness of the ‘native’ palm? In section three we contemplate the dependent variables that show up empirical and the theoretical inquiries here utilized. In 3.1. we discuss the certificates and labels conquered by the Agropalma in the last ten years as the instruments of capture of the environmental and social attributes of the commodity. Besides that, they serve for access markets and get premium prices. In the 3.2. we argue Agropalma even without any size power can projects influence over the transnational institutional scheme to regulate palm oil worldwide (RSPO), the private transnational body to regulate trade product and process. In the 3.3. we explore the public-

private linkage where we demonstrate how the company set up the governmental agenda, a successful case of political entrepreneurship.

2. The Competitiveness of Brazilian Palm Oil: Main Questions

In Brazil, the productive potential of palm, as well as the rest of the world, is found in wet areas, with high temperatures and incidence of solar energy throughout the year. By having characteristics of tropical species, planted areas are mainly in the Northern region of Brazil, and, in a small level, in the Northeast (in areas of high rainfall, such as certain areas of Bahia). About 90% of the National production is in the Amazon region, especially in the states of Pará, Amapá and Amazonas. Cause the region gathers appropriate conditions for its cultivation and production, the Brazilian Amazon became the focus of attention by the federal government in terms of investments and incentives for local income generation, supply national demand, and new alternatives for the production of renewable fuels.

Currently, the production of palm oil and its derivatives in Brazil corresponds to about 0.45% of total production worldwide. In Pará, the largest producing state in Brazil, one company (Agropalma) produces about 70% of palm oil sold in the country.

TABLE 1 – PALM OIL LARGEST PRODUCERS (2009)

Country	Production (Tons)	Characteristics of Production
1.Indonesia	20.900	Integrated Palm Oil chain with small, medium and largeholders: 43,8%
2.Malasya	17.566	Integrated Palm Oil chain with small, medium and largeholders: Malasya: 30%
3.Tailand	1.310	Tailand: 76% integrated
4.Nigeria	870	-
5.Colombia	794	-
11. Brazil	450	Brazil is the 11 producer Agropalma: 185 integrated supply 5 a 7% of palm oil (dendê) before refining Brazil: Palm Oil public policy get the target to integrate 'agricultura familiar' with main firms, small holders from 2 to 10 ha of land with

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Others	3.121	-
TOTAL	45.111	there are 3 million of integrated in world chain

Source: Agropalma and World Oil Forecast (2009)

Despite the incentives of policies encouraging the production and the inclusion of small producers, production costs (environmental and labor regulation), the logistics deficits, and the tax system, which limits the producer and favors the importer, make Brazilian palm oil expensive, unable to compete with foreigner oil. The production cost per ton of largest producer of palm oil Brazilian varies between U.S. \$ 720.00 and \$ 750.00, more than three times the value found in Malaysia, US\$ 215.00, and in Indonesia, US\$ 185.00. Environmental and labor rules restrict the competitiveness of Brazilian producers, even if the palm is seen as a strategic culture for the development of certain regions of the country. Why, then, promote a public policy with social inclusion and meeting the demands of labor and environmental standards, if the country cannot compete with the imported commodity? Is possible to project the Brazilian institutional environment for the industry of palm oil worldwide? Through which instruments? Is possible to influence the Asian producers of palm from the Brazilian public policy? The largest Brazilian palm oil, without representing a significant volume of world production, is able to influence the transnational private regulation through the RSPO?

The answers to the above questions are arranged in two levels of analysis. At first, the text explains how the international private sector becomes rulemaker to promote transnational governance of a supply chain. The palm oil companies and other stakeholders have created an international institution to promote the enforcerment of socio-environmental rules, and monitor the compliance of companies. The second level of analysis, explainsthe Brazilian position trajectory of a leading company in the production of refined palm oil in Brazil. Despite representing less than 1% of world production, Agropalma developed a competitive strategy based on niche markets for customers who demand high socio-environmental standards. With environmental and labor costs 40% higher than its Malaysians and Indonesians competitors, the company has developed contracts with large multinational companies that pay a price premium, or guarantee access to markets, or seek logistical advantages that reduce the risk of delivery palm oil imported. It is argued, therefore, that the

emphasis on the company's performance is based on the convergence of interests between the Brazilian public policies and Agropalma's business strategies.

However, the most intriguing question about Agropalma and Brazilian palm oil operations are the production costs involved. As shown in Table 2, in market prices, the Brazilian palm oil would be unfeasible. In fact, the company is increasing production, expanding the planting area with social inclusion (integrated), conquering new markets and developing partnerships with entities for research and development in pest management, and production of hybrid for improving productivity. How is it possible for a company to compete in commodity market in which Brazil has no expertise or tradition? How to explain the projection and influence of Agropalma along the transnational private institution for regulation of palm oil, the RSPO?

TABLE 2 – PRODUCTION COSTS OF PALM OIL
(In US\$ - September 2010)***

MALAYSIA	INDONESIA	BRAZIL*
214,4	174,6	698,00 – 728,00 **
FOB (imported palm oil): 900,48		FOB (Brazilian palm oil): 1.041,66
Margin (686,08)	Margin (725,88)	343,66 – 313,66

* numbers supplied from a Brazilian leading company in palm oil trade;

** updated inflation of 3% from current prices to September 2010;

*** Exchange rate: R\$ 1.65/1;

Source: working group on trade and logistics and one of the leading Brazilian palm oil producer.

TABLE 3 – LABOR AND ENVIRONMENTAL COSTS

Country	Indonesia*	Malaysia**	Brazil***
Labor		There is no minimum wage in the legislation. The price paid is about US\$110 (2005), below the poverty line. Stimatives counts about 800.000 illegal workers	NR 31 (Rural labor regulation) National Labor Regulation
Environment		weak institutions and poor environmental enforcement.	Forestry Code Environmental License Agroenvironmental regulation for palm (Embrapa, 2010)
Costs			Represents 40% of the total price of production

Source: IISD, 2008 and group formulation

3. Manipulating Dependent Variables

As shown, the Agropalma, despite being considered a successful company, cannot be competitive when we look at Asian companies and the incentives found by institutional settings weaker than which operates the Brazilian company. If Agropalma is not a competitive firm, what are the variables that explain its influence on both the transnational level and as a definer of Brazilian public policies? The research indicates that the interaction of three dependent variables (using certificates, participation in International Roundtable and synergy with policy making) explains how the company's corporate strategy and public policy guarantee market dominance of the Brazilian market by Agropalma as well indicates the explanation of some politics of development in the Northern region of the country.

3.1. Agropalma's profile

Agropalma has been widely recognized as a Brazilian leader in addressing negative social and environmental impacts in industry. Agropalma's sustainability model largely follows the Brazilian labor and environmental legislation and also complies with the principles and criteria established by the Roundtable on Sustainable Palm Oil (RSPO), in which the company is a founding member.

The company's activities in Amazon has begun with tax incentives from Sudam (Superintendência da Amazonia) to Crai (Companhia Real Agroindustrial) in early 1980's, in an area of 5000 hectares for the cultivation of the first seedlings of palm oil. In 1997, in Belém, the group opened the first refining unit to refine the raw palm oil. In the early 2000's, the production expanded to reach vegetable creams, butter and fats market. In 2005, Agropalma opened the biofuel plant to use waste from the refining of palm. In 2007, a new corporate change has created Agropalma S.A. to manage the agriculture chain (seedlings, plantation, refinery) processing all the clusters and industrial activities. The holding is a Brazilian company listed in capital markets which controller is Alfa conglomerate (Marcovitch, 2011:108).

The core business of Agropalma is the production of refined palm oil, pulp and seed (kernel) subproducts. Eighty percent of palm oil is used for the food industry, and about 20% to chemical industry. The company operated in the biodiesel market but abandoned the government auctions in 2011 due to unattractive prices. The Brazilian demand for palm oil is between 400 and 420 thousand tons/year. Brazil produces about half of its domestic demand, around 200 thousand tons/year. Agropalma produces about 170 thousand tons/year but exports 30% of production for niche markets that require socio-environmental seals and certifications. Most, however, is sold in the Brazilian market for food companies like Nissin/Ajinomoto, Nutella, Marilan, Unilever (ice cream), Ferrero Rocher (chocolates), Nestlé (ice cream), Natura (Ekos), Quacker (chemical division), Pepsico group (Elma Chips).

Compared to the Asian giant palm sector, Agropalma stands out for having a reputation different from its competitors. Since the beginning of its operations, the company had a careful compliance with the Brazilian public laws, and has been at the forefront of the

process of creating a global standard for palm oil (RSPO) since the denunciations and threats to production palm oil in the world began to intensify in late 1990's. As we shall see, the company has been always one step ahead in terms of practices, both in relation to public policies for palm oil as in relation to the rules established at the international level. Next, we examine more closely how some of the company's strategies meet public policies creating a positive environment for their operations and to develop the culture of palm in Brazil.

3.2. The meaning of labels and certificates

The increasing influence of non-state actors in the creation of rules, standards and codes of conduct in global production chains is creating private institutional initiatives that aims to regulate some economic sectors, such as agricultural commodities. The literature in International Relations (Gereffi and Meyer, 2010; Buthe, 2010; Abbott and Snidal, 2009) strongly emphasizes the impact of these arrangements on the national productive structures, highlighting how rules established under international process acquire special importance for private and state actors , since generate adaptative costs which, again, impact the competitive position of these same productive sectors in international trade.

Authors like Gary Gereffi et al. (2005), Benjamin Cashore (2002, 2007), Gereffi and Meyer (2010), Pattberg (2005) develop their arguments based on the assumption that changes in the geography of global production (as a subproduct of the globalization process) and a new responsibility reorganization of space occupied by firms in the global economy played the role of responsible for the increasing of private agents capacity to fulfill the spaces left by the regulatory state in areas where their ability is weak or even absent.

As not all transactions are conducted in free markets by price mechanisms in 'contingent contracts', but within organizations, "exist pockets of central planning within firms" (Gilligan, 2009:52). Coase (1937) argues that there are costs in transactions conducted within organizations as the cost of bargaining, the set up of negotiation arena, the coordination of supply chain, contracting costs with different stakeholders, and monitoring and enforcing the compliance with rules and norms.

Many economists attribute to regulation the role of internalizing externalities by firms. Spiller, in his text "Transaction Cost Regulation" (2011), demonstrates that private agents

when engaged in private regulatory initiatives, do it with the idea that the credibility of the private regulation also protects private agents of a possible opportunism of governments in some institutional environments. From this point of view, when institutions are not predictable and safe, governments can extract quasi-rents (Klein et al. 1978) from investors by using state power to change the rules to their benefit. If private agents in a process of collective action to promote private regulation make investments in specific assets (such as cleaner technologies or alteration of productive schemes), the public authority can jeopardize the performance of the sector. Private agents must therefore create the private regulatory schemes as global standards for commodities, creating governance mechanisms to prevent opportunistic behavior of governments. Standards, therefore, defined as "recognized and accepted criteria" (56), "external reference standards" that identify "the performance of a product or service, (...) their physical and technical characteristics, (...) and the processes and conditions under which goods and services were produced/manufactured and addressed "to the buyer (Hawkins, 1995:1 cited in Nadvi and Wältring: 2004: 56), can be used as instruments by the firms to guarantee soft regulation, without the need of other public obligatory rule.

Throughout the 2000s, Agropalma raised twelve certificates, each serving a different purpose. The explanations for the strategy to adopt a bunch of standards can be understood as follows:

- a) The prevention theory helps to understand the anticipatory behavior of the private sector in order to avoid public regulations that impose more stringent mandatory increased costs for businesses (Donadelli 2011, Buthe 2010, Hommel 2010).
- b) Ensuring access to niche markets such as organic and Kosher demand.
- c) Print a "entry barrier" for companies desiring to enter in brazilian market. As the great Brazilian company in the sector, and cause influences and inspires public policy, companies entrants are urged to adopt many of the certificates already adopted by Agropalma, increasing their operating costs. (Donadelli, op. Cit; Hommell op.cit .)

The different labels and standards owned by Agropalma are distinguished between public and private, and have different scopes, such as local, national and global. The standards also vary among themselves according to their institutional profile, which results in different

levels of efficiency and legitimacy. The standards more concerned with processes and consensus among different stakeholders balance the needs for access to markets whose the demands of civil society with regard to environmental, social and labor standards are high. The prominent is up to the RSPO, which combines high levels of legitimacy and influence, and may contribute to rising standards beyond the regulatory frameworks required by both states and by international organizations.

	Type of Standard	Description
Round Table on Sustainable Palm Oil	Environmental, Social and Quality	Certification, verified by an approved third party inspector, that production is performed in compliance with the 8 sustainability principles, 39 criteria and over 120 indicators of the multi-stakeholder initiative.
ISO 9001	Quality	Certification in quality management, verified by an approved third party inspector, per the standards set by the International Organization for Standardization and is a part of Integrate Management System
ISO 14001	Environmental	Certification in environmental management system, verified by an approved third party inspector, per the standards set by the International Organization for Standardization and is a part of Integrate Management System. Aimed at minimizing the negative affect to the environment in the production process and comply with laws and regulations.
ISO 22000	Quality	Certification in food safety management verified by an approved third party inspector, per the standards set by the International Organization for Standardization and is a part of Integrate Management System. The certified Agropalma units were the refinery, the margarine and fats plant and the commercial office in São Paulo.
OHSAS 18001	Social	Occupational health and safety management system with criteria on workers health and safety in all phases of the productive process based on local labor laws, due diligence, and best practices for the prevention of occupational diseased and injuries.
EcoSocial	Environmenta, Social	Certification in organic, Fair Trade, and stimulating local socio-environmental development according to the demands of stakeholders through the Instituto Biodinâmico.
Organic Seal	Organic	Certified organic according to the Brazilian standards, laws, and regulations through Instituto Biodinâmico, accredited by the International Federation of Organic Agriculture Movements.
Bio Suisse	Organic	Label according to standards and regulation set by Bio Suisse, private sector federation of Swiss organic farmers with rigorous codes on production, processing and import.

Japanese Agriculture Standard	Organic	Certified organic according to the Japanese Department of Agriculture based on Japanese laws and regulations in regards to agriculture, livestock, processing, and wild harvesting.
United State Department of Agriculture	Organic	Certified organic according to the USDA and its National Organic Program, which regulates the standards of production for any organic agricultural product, based of U.S. legislation.
Korean Certified Organic	Organic	Certified organic according to the Korea Food and Drug Administration based on laws and standards set by the South Korean government.
Kosher	Organic, Quality	Certificate verifying that products are being produced in accordance to Jewish dietary laws, kashrut.

Source: Sheppe et.al. Columbia University, 2012

To guarantee access to niche markets and satisfy customers with a high level of requirements in terms of social and environmental attributes of the products supplied by the company, Agropalma established a policy of aggressive adherence to various licenses. Operating in a sensitive environment like the Amazon biome, the company's strategy dispels reputational risk of its operations in the region. Certificates reduce therefore the reputational risk and reactions come greater assurance of information production processes and the general policy of the company. By ensuring access to certificates demanding markets , Agropalma established the management model and production of palm in the North of the country to be followed by all companies that want to operate in the Brazilian market.

3.3. Relations at the transnational level - RSPO

Much has been studied about the influence of private actors in the creation of international standards as elements capable of expressing common rules for the production process of various industries (Levi Faur & Jordana, 2004; Buthe, 2010; Held and Hale, 2011). Little attention, however, was given to the way in which participating companies can, within their home countries, influence the formulation of public policies. This, the influence of transnational process in local public policy shows the reference point that Agropalma exercises in Brazil .

The palm has become famous worldwide in recent years by a series of reports and campaigns promoted by environmental non-governmental organizations that puts into question the sustainability of its production, mainly the environmental impacts caused by

deforestation of tropical forests in Southeast Asia. Both in the media and among environmentalists, the production of palm in Indonesia and Malaysia was directly responsible for the decrease in natural habitats of wildlife like orangutans, the decline of biodiversity in the region and the CO₂ emissions derived by fires in forests and deforestation of areas for production as by the use of wet lands that although favorable for production, increase the amount of CO₂ emitted in the process.

A lot of criticism stemming from NGOs such as WWF, Greenpeace and sparked world-famous campaigns that sought to identify major brands that used in its production line products derived from palm oil. Since then, the interest of civil society on the issue created incentives for adaptation to improve standards to the entire production chain linked to the commodity. Industries in the food sector as Nestlé and Unilever, which used derivatives of palm in their production lines, were driven to demand new production standards from its suppliers, since the defamatory campaigns promoted by civil society organizations were reducing the reputational value of its brands . This new momentum generated at the same time a demand for new production standards with regard to the sustainable production of palm oil and created incentives for collective action to find solutions and offer common rules lifting of the supply chain social and environmental responsibility as a whole.

Through an initiative of WWF in 2001 and 2002, was prospected the idea of creating a Roundtable on Sustainable Palm, the RSPO (Roundtable on Sustainable Palm Oil). This idea occurred through informal support from business organizations linked to the palm chain like Aarhus United UK Ltd., Golden Hope Plantations Berhad, Migros, Malaysian Palm Oil Association, Sainsbury's and Unilever. In 2002, from the agreement between the parties, an organizing committee has been established and, in 2003, in Kuala Lumpur, with representatives from 16 countries, about 200 participants attended the first round of the RSPO, which aimed to initiate the process of establishing sustainability rules valid for the entire palm oil chain.

Since 2003, the RSPO has become the arena multistakeholder which in grandeur and pioneering, discuss general topics that affect the production and expansion of the palm in the world. It currently has 599 ordinary members, 100 members and 97 supply chain members . The plural character of the organization is not only represented by the categories of members as the origin of the members. In descending order, the main countries represented are the

United Kingdom, Malaysia, Indonesia, Germany, France, Netherlands, USA, Singapore, Switzerland and Belgium.ⁱⁱ

Within the RSPO, Brazil has only 6 membersⁱⁱⁱ, namely: Brazilian participation in the roundtable, despite the small number of representatives, is marked by the prominence of Agropalma that although it is a small to medium size compared to giants producing Malaysian and Indonesia, has its performance on social and environmental recognized in the palm agribusiness system. Such recognition is felt, for example, the frequent representation of the "rest of the world"^{iv} in the RSPO executive board.

Negotiate with other stakeholders to create institutions that aim to establish rules which the negotiators themselves will be submitted, means that the parties will negotiate costs, since create, maintain, monitor and enforce rules require a complex governance structure enough to meet all their warrants. With an active participation on the board of the RSPO and discussions on the progress of the world palm, also relying its experience and reputation for operating in a difficult market with rules such as Brazil, Agropalma guarantees its important role among international companies an international reference of environmental responsibility coupled with the commercial viability of its production. In other words, Agropalma lends reputation for transnational regulatory initiative, while try to influence to raise the minimum international standards in an attempt to balance the international standard with the rules that operates in Brazil.

3.4. Brazilian Palm Oil Public Policy

Vogel (2007) suggests that new forms of private sector organization, originated as a response to pressure from civil society for better trade rules, politicizes, within firms, the decision-making of business, pressing them (firms) to make spendings and commitments that otherwise wouldn't have done. They are, therefore, more likely to participate directly or indirectly to political constituencies outside the firm. For the author, the transformations in civil society imply a greater embeddness^v of other systems of governance in a global framework of social skills and agency (Vogel, *ibid*: 264)^{vi}. The relationship between Agropalma and public policy can be interpreted in this way. Agropalma decisively influences the form of public policies for the development of palm in Brazil in order to benefit from

them too. But this relationship is not just a one-way street: the Brazilian state benefits of entrepreneurship in the Amazon and incorporates the company's expertise in its own rules, creating an exigent institutional environment.

The production of palm oil is longstanding in Brazil. However, their production on an industrial scale is more recent and almost completely confined to Para, a Brazilian Amazonian state known worldwide for harboring much of the Amazon rainforest region and with the intense land conflicts, deforestation and because the local performance of logging and mining. Its cultivation occurs both within familiar farms, as large-scale, focusing on the production to meet the domestic market demand and, to a lesser extent, in order to export.

The Brazilian government against this situation launched a program that sought to take care of the controversial issues surrounding the production of palm oil in Brazil, called "Program for Sustainable Palm Oil", whose goal is "Disciplining the expansion of palm oil production in Brazil and offer tools to ensure production bases in environmental and social sustainability. "The concern to preserve the Amazon region and its biodiversity appears clear, as is done creating an agroecological zoning of palm oil, a decree that decreases the number of potential areas for cultivation of 232.8 million to 31.8 million^{vii} hectares. The encouragement of family farming, the incentive to credit and technical assistance are also part of the social program.

The high reputation of Brazilian institutional environment, based in high labor and environmental standards comes from the interdependence of corporate strategy of the main firm in the market – Agropalma -, and the public policies of federal and provincial governments in Brasília and Belem.

The Brazilian government established a federal public policy for the production of palm oil in order to make the country self-sufficient in the supply of the commodity, through a specific zoning for the planting areas and channels of financing by banks promotion (Banco do Brazil, Banco da Amazônia). Besides self-sufficiency, the government's objectives are to promote sustainable alternatives to land use, to recover degraded areas by deforestation, and promote social inclusion through federal programs through integrated production of family farming (Pronaf).

The areas defined for the called Agro-Ecological Zoning have been defined by a system of evaluation of agricultural land suitability, developed by Embrapa (Brazilian

Agricultural Research Corporation). Specific criteria were developed for the assessment of land use for the cultivation of palm (Appendix). The comparison criteria for soil suitability and regulatory requirements (subtract the areas of reservations, Indian lands, Quilombola communities) results in an overall suitability of land with features conducive to production of the palm. Thus, the policy of the Brazilian government sought to identify agricultural zones that fits the criteria^{viii} of planting periods for the cultivation and areas with low climate risk of Pará State^{ix}.

From the eight states of the Legal Amazon, Pará, in absolute terms, it is the state with the largest number of counties eligible for the cultivation of palm - 120 of the 143 municipalities in the state are able to palm farms. The productive activities of Agropalma are concentrated especially in three counties, Acará, Moju and Tailandia. Among the three municipalities, in Tailandia is the largest industrial activity of Agropalma (35%), but the place isn't part of the agro-ecological zoning for planting palm, since the area does not meet the requirements set by the government. However, the mayor and the domestic constituencies were decisive to pressure the federal government to place the municipality within the public policy and make the land suitable for the production of palm, with funding from development banks. This means that the large projects in Thailand palm will enjoy the same incentives set for the other municipalities that meet government requirements.

Recently, the most prominent influence of Agropalma in the public policy has been made under the creation of a Sectorial Chamber for Palm Oil. In 2010, a Sectorial Chamber has been installed by the Minister of MAPA, with private sector and ministerial representatives. The attention to the meetings where the palm oil issues were discussed is important to understand how the Agropalma was important to set the core issues discussed on the reunions. On the first occasion, Mr. Marcelo Britto, Agropalma's director, was the responsible to present the main challenges for the Brazilian palm oil chain. The influence of the Agropalma in the formulation of the palm oil public policy can be expressed, as Mr. Britto the only private sector member to speech in the second meeting said, the palm oil public policy had been made by 'several hands', and its success is due to the private sector and authorities committed with the objectives. Agropalma was the only company, with Marborges, to have developed the partnership with Embrapa to foster R&D incentives in

order to get the new palm oil hybrid without the ‘yellow death’. The new Hybrid has been announced in the second meeting with the presence of President Lula.

In the third meeting (may, 2011), Conab (Companhia Nacional de Abastecimento) presented the preliminary update production and planted area of palm in the year of 2010. The 72 thousand ha of palm formation and the 57 thousand ha of production area of palm were considered outdated, as the information from Marcelo Britto from Agropalma. Actually, Conab numbers were underestimated and the Agropalma’s numbers defined the program of land regularization in the palm areas of legal Amazon, most in Pará state (in the fourth meeting).

In the fourth meeting of the Sectorial Chamber, Agropalma took the floor again to inform the management system of avoid plagues in the palm plantation. In the same meeting, the integrated production system of palm oil has been presented by MAPA (Mr. Sidney Medeiros). In the last meeting of 2011 (October), the members discussed an strategic plan for the Brazilian palm oil for the next decades, and Agropalma manifested concern with imports of palm oil benefited by asymmetries in taxes among provincial states. As Pará state has the highest ICMS tax (17%), some importers bring palm oil from other states with lower taxes what damages producers as Agropalma in Pará.

In conclusion, Agropalma is a strategic agenda setter for the Brazilian palm oil public policy as the empirical evidences from Sectorial Chamber meetings. The company is the most offensive among the competitors, the only one to participate in all five meetings. In all of them the firm took the floor to rise his concerns: 1. the challenges in competitiveness of palm oil in Brazil (expand production); 2. R&D to develop hybrids without the ‘yellow death’ and management system to avoid pesticides; 3. balance the Brazilian tax system in order to favor domestic production.

4. Conclusion

The success of Brazilian palm oil industry comes from a synergistic linkage between Agropalma and the Brazilian federal government. It’s not an traditional case of corporate influence neither a top down public enforcement of regulation. Actually, from the Brazilian government perspective, it’s a indirect way of conducting foreign policy. Projecting

worldwide environment and labor regulation with social protection is a valuable asset in international relations. Coming from one of Brics country like Brazil, it's a tremendous untangeable soft power which facilitates government movements in others agendas of International Institutions, specially in environmental issues.

From the corporate side, the Brazilian public regulation increased the costs of newcomers in palm oil industry. After the law of 2010, areas availables got smaller, land costs are more expansive, production and logistic costs are unbearable and the institutional environment protect the business operations of Agropalma and new ones in palm (Vale, Petrobras and Bunge). As Agropalma has developed a clever strategy to rely on high environmental atributes for refining palm and kernel oil, information about firm compliance came out with certificates and labels to acess premium markets.

But some questions remain. Does the brazilian palm oil policy really upgrade environmental protection in Amazon rainforest? Does Agropalma model is the most sustainable, economically, environmentally and socially? What role should governments and the private sector play in sustainable development in the developing world? Does Agropalma model could compete with the production costs of Malaysia and Indonesia? This last question is core for the future of Brazilian palm oil industry. The connection between domestic politics and transnational regulation is clear. Would private sector cooperation on this regulation could provide the public good of increase environmental protection worldwide? Does Agripalma business would run more steadily and safer? Does it need more influence in RSPO? In last resort, Agropalma and competitors in Brazil must have size power to bargaining with Asia?

To comfort forecasts about the future, we should prospect. Palm oil industry in Asia demonstrates that governments take public regulation and incentives to develop domestic and international market control, it's a state-driven strategy to place cheap palm oil available to food industry in world markets. Brazil is doing the same with strict regulatory environmental rules, and including poorer smallholder producers in the commodity chain. However, as Brazil has not size power in world palm oil market, this fragile position is trading off with reputation which is lended to RSPO private transnational arrangement. The question is to know if a political stake is enough to keep Brazilian palm oil in foreign markets, and leaving Brazilian one protected by newcomers.

ⁱ Production of 2011: 160.000 tons of refining palm oil, and 16.000 tons of kernel oil (www.agropalma.com.br)

ⁱⁱ More information in www.rspo.org

ⁱⁱⁱ Agropalma Group (producer), b) BT Support System LTD (Organisation) c) Company Refinadora Amazon (processor and trader) d) IBD Certifications (organization), e) and Natura Logistics Services LTD (manufacturing industry goods and services) and f) AS Oxiteno Industry and Commerce (processor and trader)

^{iv} Executive Board in the category that has the highest number of representatives is the producer, with 4 representatives. However, 2 of the 4 chairs are occupied by a representative of Indonesia and in Malaysia, necessarily. The "rest of world" rotates 2 chairs and stands as the criterion of relevance or recognition of the producer in the production of palm oil. For this reason, because it has been representative of the rest of the world, you might consider Agropalma as an important player among world producers of palm oil.

^v Karl Polanyi (XXXX1944) attaches to the concept of embeddedness the idea of rooting a strong link between society and economy.

^{vi} The relationship between constituencies and political strategy firms will be discussed later within the approaches of Institutional Economics.

^{vii} Decreto-lei 7.172, de 07 de maio de 2010

^{viii} Finally, in each municipality, was established area that meets these criteria. There are two types of classification. Firstly, those municipalities with regulated areas for the management of type B (preferred), the most suitable for the cultivation of palm, and municipalities with management type C (regular), capable but without the ideal characteristics. Both are within the public policy of the federal government and enjoy the same advantages with regard to public funding.

^{ix} Ministério da Agricultura: Portaria 416, 2010

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Appendix 1

MEETINGS OF THE BRAZILIAN PALM OIL SECTORIAL CHAMBER Portaria 592 – Ministério da Agricultura, Pecuária e Abastecimento (MAPA) August, 17, 2010, Brasília		
TIME	AGENDA SETTING	FULL MEMBERS (Private sector)
First Meeting August, 18, 2010 Brasília, MAPA	- Brazilian Palm Oil Sustainable Program (Tereza Campello, Ministerio da Casa Civil)* - Challenges of Brazilian Palm Oil Industry (Agropalma) - Palm Oil in the Food chains (ABIA)**	Firms: Agropalma, Marborges, Denpasa, Petrobras biofuels, Biovale (Vale)
Second Meeting October, 15, 2010 Belém	- President Luis Ignácio Lula da Silva has opened the meeting - Embrapa***: in partnership with Agropalma and Marborges, representative of Embrapa announced the new palm oil hybrid free of Yellow Death - Speech of Marcelo Brito, Agropalma representative - Basa (Amazon Bank) announced the contracts with	
Third Meeting May, 12, 2011 Brasília	- Palm oil harvest up dated (Conab) - Property rights regularization (MDA) - Logistics and tax (MDIC)	Firms: Biopalma, Marborges, Agropalma, Petrobrás biocombustíveis
Fourty Meeting August, 17, 2011 Brasília	- Frente Parlamentar da Agropecuária (Deputado Federal Moreira Mendes) - Palm Oil Integrated chain with smallholders (Sidney Medeiros, MAPA) - Risk analysis of plagues in seeds (Agropalma) - Minor Crops of Palm Oil (Anvisa)	Firms: Agropalma, Biopalma, Denpasa, Marborges.
Fifty Meeting October, 6, 2011 Brasília	- first strategic agenda for Palm Oil - Regulation in pesticides - Palm Oil imports benefited by asymmetries in the inter-provincial tax system	Firms: Agropalma, Biopalma, Denpasa, Marborges.

* Official Authority to announce the public policy

** Brazilian Food Industry Association

*** Embrapa (Empresa Brasileira de Pesquisa Agropecuária): brazilian public company dedicated to reseach and development in agriculture and agrobusiness

Appendix 2

MAIN AGROPALMA COMPETITORS IN BRAZIL			
FIRM MUNICIPALITY	AREA	OPERATION	EMPLOYEES
Agropalma (Tailândia e Belém)	167.000 ha	Supplier of food industry (80%) in premium markets	4.800
Biovale (Moju and Concordia)	130.000 ha	Biofuel for locomotives (Iron ore transportation) And capture 12 million of CO2 eq.	1.000
Marborges	30.000 ha	Biofuels	800
Petrobras biofuels	110.000 ha	Biofuels	na

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