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Governance and Land Reform in the Palm Oil Value Chain in the Philippines

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Governance and Land Reform in the Palm Oil Value Chain in the Philippines

Caroline Hambloch*

Abstract

The chain literature (Global Commodity Chains/Value Chains/Production Networks) have remained surprisingly silent about the role of land as a factor of production. I use fieldwork experience from the palm oil industry in Agusan del Sur, Philippines to illustrate the way in which the buyer-driven nature of the chain interacts with a major institutional change, namely the redistributive land reform, Comprehensive Agrarian Reform Program (CARP). I argue that the CARP has not resulted in the desired redistribution of power from the landed to the landless, but reinforces the unequal distribution of power between plantation/milling companies and beneficiaries, producing economic and social downgrading trajectories for reform beneficiaries and farmworkers.

Keywords: agribusiness; flex crops; land reform; oil palm; Philippines; value chains.

JEL classification: O53, P14, P16, P48, Q15, Q33

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Introduction

The chain literature, encompassing the literatures of Global Commodity Chains (GCC), Global Value Chains (GVC), and Global Production Networks (GPN) has been profoundly useful in analyzing the linkages between production and consumption by examining direct chain actors, i.e. producers, processors, retailers, and indirect actors, i.e. the government, civil society, and other institutions. Empirical applications of the chain concepts range over a variety of agricultural products, such as cotton (Gibbon 2008), fresh vegetables (Dolan and Humphrey 2000, 2004), fresh fruits (Bain 2010), and coffee (Daviron and Ponte 2005). However, to date the chain literature has predominantly focused on final consumer goods, for which a clear chain from production to consumption can be traced. This is to the neglect of intermediate goods, such as palm oil, which potentially have more complex network structures due to the multiple and flexible uses of the crop (Alonso-Fradejas et al. 2016).

Furthermore, the chain literature has remained surprisingly silent about land as a factor of production and as the basis for chain configuration, overemphasizing capital and to a lesser extent labor. Specifically, redistributive land reform policies imply far-reaching institutional changes, potentially shifting the underlying power distribution between the different chain nodes and producing various economic and social up- and downgrading trajectories.

This paper contributes to the literature by highlighting the significance of land as a production factor and changes made to it as the foundation of the chain structure. Issues of land have largely been overlooked in the chain literature. This paper fills this gap by operationalizing redistributive land reform as part of the institutional framework within the broader chain framework (GCC, GVC, GPN) by investigating the interaction of land reform, chain governance, and their implications on economic and social up-and downgrading in the oil palm chain in the Philippines. This paper first examines the overall value chain, and continues to zoom in on the case study of Agusan del Sur, Mindanao. I argue that the Comprehensive Agrarian Reform Program (CARP) introduced in 1988 under the Department of Agrarian Reform (DAR) represented a major institutional change, limiting the physical expansion of oil palm plantations profoundly, driving companies to extract as much profit as possible from existing plantation. Thereby, the CARP has not led to the desired redistribution of power from the landed to the landless, i.e. from the palm oil plantation companies to the landless workers, but rather has exacerbated the unequal power distribution between plantation and milling companies and agrarian reform beneficiaries (i.e. landowners), producing economic and social downgrading trajectories for reform beneficiaries and

farmworkers, and worsening distributional outcomes. This is partly due to the buyer-driven nature of the palm oil value chain, in which the palm oil mills prior to the CARP already hold disproportionate power over production and labor.

The paper is organized as follows: Section 1 critically discusses the literatures on redistributive land reform and commodity/value chains, arguing that the former has surprisingly not received any explicit consideration in the latter. Section 2 introduces the general palm oil industry, the palm oil value chain in the Philippines, and the CARP as a major institutional change to the agricultural plantation sector in general. Section 3 presents the case study of oil palm plantations in Agusan del Sur, the methods, and analysis for this study. Section 4 analyzes the impact of the ineffective elements of the CARP, and the consequences for social and economic up- and downgrading trajectories for agrarian reform beneficiaries (i.e. landowners, farmworkers) and plantation/milling companies. Finally, Section 5 concludes that the CARP has significantly contributed to the impoverishment and marginalization of local landowners and farmworkers.

1. Commodity chains and redistributive land reform

Land redistribution has long been a central part in the theoretical and policy debates around spurring economic development, increasing average national income, and leading to a more equal income distribution (see e.g. Griffin, Khan, and Ickowitz 2002). After the disregard of land redistribution policies during the structural adjustment programs in the 1980s, land redistribution policies were revived in the 1990s as a result of a resurgence of rural social movements (e.g. Via Campesina) and a turn in World Bank policies (Rosset, Patel, and Courville 2006). As defined by Fox (1993, 10), redistributive land reforms aim to alter the relative distribution of land between different groups, and are hence zero-sum in nature. Borras (2006b, 73) further specifies this definition by stating that “redistributive land reform means the net transfer of wealth and power from the landed to landless and land-poor classes”. Thereby, redistributive land reforms imply that authority over land resources is effectively handed over in a unidirectional manner from large private landowners to small peasants and/or landless farmworkers, generating a redistribution of wealth and power between different classes (Griffin, Khan, and Ickowitz 2002; Borras 2006b) and fundamental changes in rural relations (Putzel 1992).

With the emergence of the market-based ‘new wave’ of land reform policies within the school of New Institutional Economics (Lipton 2009)¹, the World Bank has accepted that a highly unequal distribution of land and access to land resources are considerable impediments to economic development and growth (Rosset, Patel, and Courville 2006). New institutionalists argue that redistributive land reforms theoretically improve equity and efficiency for three reasons (Byamugisha 2014). First, productivity is increased by redistributing land from large farms managed by wage laborers to small family farms, exploiting the negative relationship between farm size and productivity (Binswanger, Deininger, and Feder 1995; for critical view see Sender and Johnston 2004). Second, land ownership may facilitate access to credit, which in turn, third, may allow for consumption smoothing and large investments, such as in agricultural technologies or inputs (Byamugisha 2014). The case for redistributive land reform is particularly strong when the land distribution is highly unequal and rural poverty is prevalent, since it contributes to increases in output and growth, from an economic point of view, and mitigates land-related social conflicts and peasant struggles, from a political point of view (Deininger 2003; Lipton 2009). As a result, land redistribution benefits of increased equity and efficiency are linked with higher productivity of agriculture, thereby generating employment and reducing rural poverty (Binswanger-Mkhize, Bourguignon, and van den Brink 2009). Using chain literature terminology, redistributive land reform will, according to new institutionalists, lead to both economic and social upgrading, by increasing productivity, growth, and output, and by reducing poverty through for instance higher wages.

In contrast, radical political economy understands redistributive land reform as part of a broader agrarian transformation arising out of unequal agrarian structures within which the corporate food regime and powerful landed elites exploit the peasantry and working class (Rosset, Patel, and Courville 2006; Cousins and Scoones 2010). Since property rights are understood as social relationships which are fundamental elements of the agrarian structure, redistributive land reform policies need to reform these pre-existing social relationships in the countryside in a ‘pro-poor’ approach, i.e. ensuring a shift of power from the landed or the government to the landless (Borras 2006a). To be truly pro-poor, redistributive land policies need to acknowledge the social differentiation of the rural poor and their variety of interests, such as gender, landless and/or land-poor peasants, wage laborers, and ethnic diversities, in

¹ New Institutional Economics assumes that institutions such as property rights are endogenous, which reduce transaction costs (Lipton 1993).

order to identify the policies' differentiated effects (Borras and Franco 2010). Additionally, others openly question whether redistributive land reform is effective in increasing yields, suggesting that it can imply perverse consequences for instance for women (Johnston and Le Roux 2007). Bernstein (2006, 452–53) goes even further, arguing that “'land to the tiller' [...] seldom led to comprehensive redistribution in terms of who received land’.

Despite its immense importance, redistributive land reform has surprisingly not received any explicit analysis within the chain literature (GCC, GVC, GPN)². This paper highlights how the chain literature has focused exclusively on the production factors of capital and more recently labor, ignoring land as an input in the production process and as the basis of chain configurations. The omission of land as a production factor may be partly due to the chain literature's fixation on capital as such (Pegler 2015). Integrating land as a factor of production and its relationship to capital and labor is necessary to shed more light on the root causes of economic and social up- and downgrading trajectories.

As the new institutionalist literature sees redistributive land reform and economic and social upgrading as mutually reinforcing, this paper empirically and critically examines the success of the redistributive land reform program CARP within the oil palm industry in the Philippines. This paper operationalizes land reform as part of the institutional framework of the chain literature, i.e. the implicit and explicit rules and regulations governing the chain, by investigating the interaction of land reform and chain governance, and their implications on economic and social up- and downgrading in the oil palm chain in the Philippines. This paper draws from the economic upgrading typologies proposed by Humphrey and Schmitz (2002) and Gibbon (2001). Social upgrading conceptualizations are informed by institutional perspectives (Barrientos, Gereffi, and Rossi 2011; Gereffi and Lee 2016) as well as Marxist ones (Cumbers, Nativel, and Routledge 2008; Selwyn 2013). This paper takes a broader approach to social up- and downgrading by including not only plantation workers but also small producers and landowners (see e.g. Thiers 2017). It explicitly acknowledges economic and social *downgrading* processes or exit, which have been largely neglected theoretically and empirically within the chain literature (Gibbon and Ponte 2005; Selwyn 2013).

2. The palm oil value chain and the CARP in the Philippines

The palm oil value chain differs considerably from other primary crops, such as fruits, coffee or cacao, due to three unique features. First, it is necessary to process the fresh fruit bunches

² For the GCC literature see Gereffi and Korzeniewicz (1994); for the GVC literature see Gereffi et al. (2001); and for the GPN literature see Henderson et al. (2002) and Coe et al. (2004)

(FFB) within 24 hours of harvesting to maintain an adequate level of the quality standard.³ Second, large capital investments are required to make palm oil milling profitable, involving the construction of a mill and running it at an adequate level of capacity (for a mill with the capacity of 10 MT/hour, around 4,000-5,000 hectares of oil palm are required considering potential yields in the Philippines) requiring high technical expertise. Third, crude palm oil needs to be further refined to serve as an input in food manufacturing, oleochemicals, biodiesel, or animal feed.

It is argued here that this has at least three consequences. First, the nature of the crop demands that the buyer, i.e. the palm oil mill, is in relative vicinity. This usually leads to the nucleus estate model, in which the palm oil mill is in the geographical center of the oil palm plantations. The nucleus estate model can be found in all major oil palm producing countries, including Malaysia, Indonesia, and Papua New Guinea. One variation of this model is the nucleus estate and smallholder model, which was widely promoted by the World Bank to engage smallholders (McCarthy and Cramb 2009). Second, milling companies generally demand strong control over the production of oil palm to assure economies of scale and quality requirements. As such, the palm oil mill is usually closely involved in the primary production of oil palm, leading to the corporatization of the upstream nodes of the value chain. Finally, refineries have significant buying power over palm oil mills, since the crude palm oil must undergo refinement.

The Filipino palm oil industry

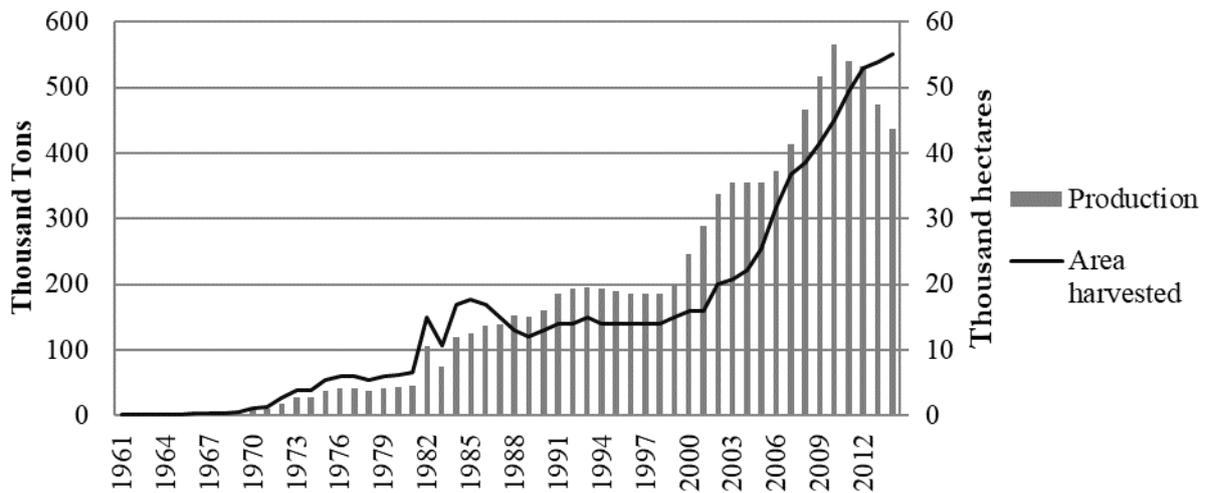
The palm oil industry in the Philippines serves as interesting case study due to its significant growth in the past decade. Oil palm production increased by 79% between 2000 and 2014, whereas area harvested increased by 244% in the same time period (see Figure 1).

Large parts of the Philippines, notably Mindanao and Palawan, are geographically located within the ‘palm oil belt’, i.e. the areas within 10° N to 10° S (Byerlee, Falcon, and Naylor 2017), exhibiting suitable conditions in terms of climate and soil for oil palm production. Until 1980, oil palm production in the Philippines was low, mainly due to a lack of investments. Significant expansion took place under the Marcos regime and the National Development Corporation (NDC) (see below). Since the 2000s, investments into the Filipino oil palm industry increased significantly partly due to palm oil’s increasing importance in the

³ The free fatty acid is the main measure of quality when selling the Crude Palm Oil. The most commonly used threshold of FFA is a maximum of 3.5 %.

national and global consumption of vegetable oils (see Figure 1). Expansion took place within Mindanao and the Visayas (see Table 1 for current oil palm plantings).

Figure 1. Area harvested and production of oil palm fruit in the Philippines, 1961-2014.



Source: FAOSTAT (2015).

Despite the growth of the Filipino palm oil industry, it is relatively small compared to other major palm oil producing countries. In 2015, the area in the Philippines amounted to 89,376 hectares (Pagaran 2017), compared to Indonesia (7,407,090 hectares), Malaysia (4,689,321 hectares), Thailand (663,707 hectares), and Papua New Guinea (157,100 hectares) (FAOSTAT 2015). Similarly, in terms of production, the Philippines are currently only a minor player in the industry ranking in place 21 in terms of share of global production.

Table 1. Oil Palm Area in the Philippines in 2015.

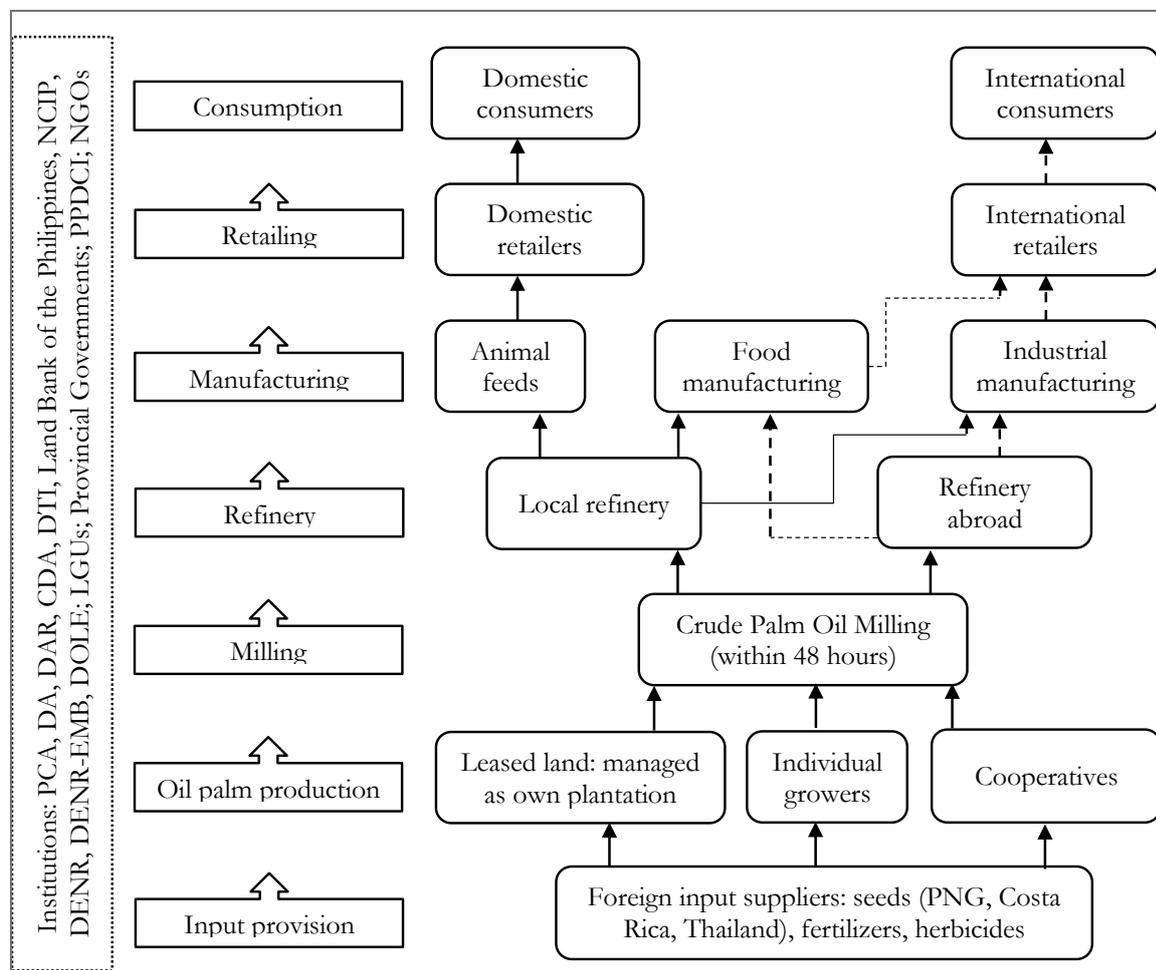
Island Region	Region	Province	Area Planted (hectares)
Visayas	MIMAROPA	Palawan	8,546.24
Visayas	Central Visayas	Bohol	6,493.69
Mindanao	Zamboanga Peninsula	Zamboanga del Norte, del Sur, Sibugay	6,119.20
Mindanao	Northern Mindanao	Bukidnon, Misamis Oriental	3,280.00
Mindanao	Davao Region	Compostela Valley	3,500.00
Mindanao	SOCCSKSARGEN	North Cotabato, Sultan Kudarat	29,096.69
Mindanao	Caraga	Agusan del Sur, del Norte; Surigao del Sur	25,827.93
Mindanao	ARMM	Maguindanao	6,500.00
Total			89,363.75

Source: Own calculation based on Pagaran (2017).

The Philippine palm oil value chain is depicted in Figure 2, revealing a complex conceptual institutional map, including its key value chain actors, and main functions. This

information was primarily obtained during fieldwork. Based on my fieldwork, oil palm production in the Philippines takes three different forms, through (1) leased land, (2) individual growers, and (3) cooperatives. First, leased land, in which the plantation company leases an aggregated land area from a cooperative, makes up about 25-30% of production based on my calculation.⁴ Instead of owning the land surrounding the palm oil mill, oil palm plantation companies (generally sister companies of the milling companies) lease the land from the cooperatives since corporate ownership of agricultural land is limited to 1,024 hectares; foreign landownership is prohibited altogether but legal through minority interest. Landowners of these cooperatives or associations generally receive a fixed rent and variable economic benefits. This production mode is the center of analysis in this paper.

Figure 2. The Filipino palm oil value chain.



Source: Own elaboration.

⁴ The exact distribution between individual growers and cooperatives could not be determined due to lack of data. However, examining company-specific production data, most production is sourced from cooperatives. The data on the amount of leased land was obtained from the companies, and then subtracted from the total amount of land shown in Table 1 (minus the oil palm area in Zamboanga, since no information was obtained from that the plantation site).

The second method for sourcing oil palm is from individual growers, who are either self-financed or have acquired a loan from the bank. Individual growers can have a marketing agreement with the palm oil milling company (e.g. in Bohol), or can be independent growers without such agreement (prevalent in many areas of Mindanao and Palawan). The marketing agreement specifies the minimum quality requirements for the FFB and the price formula.

Finally, oil palm fruits can be supplied through the so-called outgrower model, in forms of cooperatives, in which the entire land area of the landowners is lumped together as one plantation. These cooperatives have generally signed a marketing agreement with the milling company, and the majority have existing loans with the Land Bank of the Philippines. Many of the interviewed cooperatives in production mode (1) and (3) are highly indebted and are unable to partially or fully pay benefits to their members generated from oil palm production.

Value chain governance in the Filipino palm oil value chain

This paper argues that the Filipino palm oil value chain is in effect buyer-driven, implying that oil palm producers are de facto price-takers, resulting in an unequal power relationship between the milling company and the different modes of oil palm production. The disproportionate power of the milling company over the growers and cooperatives is best exemplified through the price formula for the fresh fruit bunches (FFB). According to the milling companies, the FFB price is referenced to international prices. However, interviews with the milling companies did not reference any of the publicly listed FFB prices such as the widely-used Malaysian Palm Oil Board (MPOB). The price formula generally includes a milling fee, ranging between PhP 600 (\approx USD 13) to PhP 700 (\approx USD 14) per metric ton of FFB delivered to the mill, which is shouldered by the growers/cooperatives. Additionally, the milling companies generally retain a 15% fixed share in the price formula as a gross profit margin to cover incurred losses during storage and transport, administrative, and marketing costs. By pushing these costs onto the growers, cost pressures on growers are exacerbated due to the low prevailing FFB price in the Philippines compared to international standards. The current MPOB price on June 21, 2017 for fully productive and high grade FFB in Sabah is RM 552⁵ \approx PhP 6,495⁶. In contrast, the current FFB price at Agumil Philippines Inc. (AGPI) for the same quality fruits is PhP 4,300, two thirds of the Malaysian price.

⁵ See MPOB (2017).

⁶ At the current exchange rate of RM 1 = PhP 11.77 in June 2017.

Moreover, landowners in the leased land system are not entitled to receive FFB royalties, meaning that landowners do not benefit from efficiency gains in yields or positive price developments, causing the plantation/ milling company to appropriate all farm surpluses generated in the production of oil palm. Furthermore, landowners are not able to sell their FFB to other mills due existing marketing agreements. The palm oil milling companies thus have disproportionate power vis-a-vis oil palm growers, leaving the growers in a highly captive market relationship with the palm oil mill characterized by one-way dependency and high costs. The finding that the palm oil value chain in the Philippines is buyer-driven is in line with the findings of Pacheco et al. (2017) but in contrast to Mather (2008).⁷

The Comprehensive Agrarian Reform Program

Filipino plantation agriculture in general and the palm oil industry in particular have been radically changed with the Comprehensive Agrarian Reform Program (CARP) under the Republic Act No. 6657 of 1988 under President Corazon Aquino.⁸ The CARP was implemented incorporating the ‘land-to-the-tiller’ logic to (i) redistribute private and public agricultural lands to landless farmers and farmworkers of about three hectares, (ii) implement leasehold reforms, or (iii) offer a stock distribution option for large-scale agriculture, as a means of alleviate rural poverty and enhance national economic development⁹. The CARP is distinct from previous land reform programs in the Philippines because it was driven by revolutionary/social movements promoted by the peasantry in protest of a corrupt and highly unequal land distribution (Putzel 1992; Hall, Hirsch, and Li 2011). The monopolization of land ownership or control thereof by the landed class was the result of the increasing concentration of landownership during Spanish and US colonial times (Anderson 1988).

The CARP was set up for ten years until 1998 and expected to cover around 10.3 million hectares benefitting potentially four million landless or land-poor farmers and farmworkers. Two government agencies are involved its implementation. The Department of Agrarian Reform (DAR) administers the redistribution of private (3.3 million hectares) and

⁷ Mather (2008) asserts that the global palm oil value chain is producer-driven, since Malaysia and Indonesia control the production and export of crude and refined palm oil. In contrast, Pacheco et al. (2017) state that the palm oil value chain is buyer-driven responding to the increasing global demand for palm oil, which is more in line with the findings of this study.

⁸ The CARP was extended in 2009 to the Comprehensive Agrarian Reform Program Extension with Reforms (CARPER). In the following, the agrarian reform program in general is referred to as CARP, including provisions included in the CARPER.

⁹ The stock distribution option was limited to the first few years of the CARP. The most infamous example of the implementation of the stock distribution option is Hacienda Lusita, a 6,431 hectares sugar plantation owned by the Cojuangco family of the former president Aquino. For a detailed discussion see Putzel (1992, 332–37).

non-private (1.8 million hectares) agricultural lands¹⁰ (Diokno, Francia, and Urbano 2014), whereas the Department of Environment and Natural Resources (DENR) redistributes public alienable and disposable land (2.5 million hectares), and land under Integrated Social Forestry/Community-Based Forest Management (one million hectares). The CARP fell short of achieving its land redistribution targets, resulting in two extensions to eventually 2014. Simultaneously, the land redistribution scope was reduced to 8.5 million hectares excluding largely medium to large private agricultural lands (Borras 2006b). As of December 2013, the land redistribution accomplishment amounted to 89.93% involving the redistribution of 4.5 million hectares of DAR-administered land and 3.8 million hectares of DENR-administered land to a total of 5.4 million beneficiaries (Diokno, Francia, and Urbano 2014).¹¹

The redistribution of lands is implemented through four land acquisition and redistribution modes. First, compulsory acquisition is a state-driven land acquisition approach involving the expropriation of landlords with or without the consent of the landlord. Second, Operation Land Transfer is used for the acquisition and redistribution of corn and rice lands previously included in Marcos' agrarian reform under Presidential Decree No. 27 (Hayami, Quisumbing, and Adriano 1990). Third, Voluntary Offer-to-Sell (VOS) is used to incentivize landlords to voluntarily offer their land in return for a five percent increase in the cash share on the compensation payment, wherein the landlord sells the land to the state. Finally, Voluntary Land Transfer (VLT) is a market-led scheme in which the landlord directly transfers the land to the beneficiaries involving terms mutually agreed upon between the landlord and the beneficiary, reducing the government's role to provision of information and contract enforcement (Borras 2008). If the voluntary land transfer is resisted by the landlord, the state can expropriate the landlords via Compulsory Acquisition in both VOS and VLT schemes.

The four different modes of the CARP expose the reforms' liberal and concessionary nature (Borras and Franco 2005). Even though the reform program involves some options to expropriate landlords, the voluntary modes VOS and VLT create opportunities for abuse and de facto evasion of effective transfer of ownership and power from landlords to beneficiaries. This is best exemplified through the leaseback provision, which allows land reform beneficiaries to 'lease back' their awarded land to the pre-land reform owner or lessee, circumventing the actual transfer of ownership and control over land. The leaseback

¹⁰ Currently, the FAO estimates that 12.4 million hectares in the Philippines are agricultural lands.

¹¹ In total, 8.2 million hectares have been redistributed by December 2013. This figure is above the revised scope of 2006 of 8.5 million hectares due to previous land redistribution. The cumulative scope of land redistribution between 1987 to 2013 involves a total of 9.2 million hectares (Diokno, Francia, and Urbano 2014).

arrangement was widely used in the plantation industries, e.g. banana, pineapple, and palm oil, to appease multinational companies in the wake of the agrarian reform program, reflecting the disproportionate power held by agribusiness companies and landlords to the detriment of reform beneficiaries. The details and impacts of the leaseback arrangement in the Filipino palm oil industry will be analyzed below. For a critical assessment of the CARP for the banana and pineapple industry see e.g. Hayami, Quisumbing, and Adriano (1990), and Borrás and Franco (2005); for coconuts see e.g. Vista, Nel, and Binns (2012); and for sugar see e.g. Diprose and McGregor (2009).

3. Case study, methods and analysis

Positioning the case study

The case study focuses on oil palm plantations in Agusan del Sur, Mindanao, which is currently comprised of two companies, namely (1) Filipinas Palm Oil Plantations Inc. (FPPI) in Rosario, Agusan del Sur, formerly under the Malaysian company Guthrie Overseas Holdings Ltd.; and (2) the Malaysian-Filipino joint venture Agusan Plantations Inc. (API) in Trento, Agusan del Sur. The case study is further used to illustrate the general struggle between the state, the agribusiness elite, and farmworkers.

The development of the oil palm industry in Agusan del Sur has resulted from the Filipino government's facilitation of export-oriented industrialization, pushed by the International Monetary Fund and the World Bank (Alternate Resource Center 1986). By the end of the 1970s, the Marcos government (1965-1986) had a particular interest in the development of oil palm plantations expecting to earn foreign currency through palm oil exports (Caufield 1983). Land ownership by foreign-owned companies was not allowed under the 1935 Constitution of the Philippines, yet multinational companies bypassed this prohibition, notably through land leases from the National Development Corporation (NDC) (Hayami, Quisumbing, and Adriano 1990). Marcos expanded the role of the NDC considerably, making it effectively the investment arm of the Ministry of Trade and Industry (Alternate Resource Center 1986). Additionally, the NDC was now authorized to be the owner of any type of land, becoming both an investor and a landlord; its role became particularly important as a procurer and lessor of land to transnational companies in plantation agriculture (CIIR 1982; Alternate Resource Center 1986).

In 1980, Presidential Proclamation 1939 reserved 28,700 hectares for the NDC located in San Francisco, Rosario and Prosperidad, in the province of Agusan del Sur. Presidential Proclamation 2041 reserved 11,850 hectares in La Paz, Loreto and Trento,

Agusan del Sur. Finally, through Presidential Proclamation 1766 (signed in 1981) the NDC assumed the ownership of the reserved areas through the land's reclassification to 'alienable and disposable' (Alternate Resource Center 1986; Putzel 1992). Some of the agricultural lands were acquired through the donation of local *datus* in return for employment, or were bought at PhP 3,000 per hectare, depending on existing formal land titles (DAR 2005, 9).

Multiple joint venture agreements establishing oil palm plantations between the NDC and transnational companies were initiated (Putzel 1992). In 1980, Guthrie Overseas Holdings Ltd. entered into two joint ventures with the NDC. First, the joint venture between the NDC and Guthrie Plantations Inc., namely NGPI, signed a lease agreement with the NDC valid for 25 years and renewable for another 25 years over an area of 8,000 hectares in San Francisco, Agusan del Sur, part of Presidential Proclamation 1939. NGPI first developed a 4,000 hectares nucleus estate in Agusan del Sur (Alternate Resource Center 1986). A second joint venture between the NDC and Guthrie Estates Inc. was entered in 1983, namely NGEI, developing another 4,000 hectares nucleus estate oil palm plantation in Agusan del Sur, also from Presidential Proclamation 1939 (Alternate Resource Center 1986; Villanueva 2011).¹²

Contrary to the claim of the Marcos government that the lands targeted for oil palm developments were uninhabited, the 8,000 hectares of oil palm plantation in Agusan del Sur led to the widespread dispossession of indigenous communities and other inhabitants (Canavan 1984; Krinks 2003), resulting in overlapping claims to the land until today (see below). The majority of the land was either occupied by 'settlers', who had been utilizing the land for generations, or by tribes with religious and cultural deep-rooted connections to the land, many of which were left landless (Caufield 1983).¹³ During this first phase of expansion at the end of 1981, NDC-Guthrie employed the para-military group called 'Lost Command' led by Colonel Carlos Lademora as to evict the remaining indigenous people and settlers from the land and to suppress labor union strikes (based on fieldwork interviews and CIIR 1982; Alternate Resource Center 1986; Putzel 1992). As a result, classifying land as 'alienable and disposable' effectively disregarded pre-existing production relations, in particular 'indigenous' land use practices.

¹² In 1983, NGPI was granted a £6.4 million loan by the British Commonwealth Development Corporation (CDC), and a parallel loan of approximately the same amount by the International Finance Corporation of the World Bank was granted to NGEI for oil palm plantation development (Clarke 1983; Canavan 1984; Alternate Resource Center 1986).

¹³ CIIR (1982) estimates that in 1980, the barangays of Cabantao, Mate, and Maligaya alone, located within the first area established by NDC-Guthrie, approximately 3,000 people were dispossessed. This represents only a fraction of the total.

Similarly to the NDC-Guthrie Project, the NDC entered into another joint venture in 1982 with the Singaporean company Keck Seng Plantations (now Keck Seng (M) Berhad) and a group of Filipino investors led by Leonardo Ty¹⁴. The joint venture resulted in Agusan Plantations Inc. (API), establishing a nucleus estate of 1,427 hectares in Trento, Agusan del Sur, in line with the reservation of Presidential Proclamation 2041. It is very likely that indigenous communities have been similarly evicted from their land since the first inhabitants of Trento are Manobo tribes (Republic of the Philippines 2013); until today indigenous peoples claim portions of the plantation area (see below).

Methods and data analysis

The results of this study are based on a combination of secondary and primary data. Secondary data resulted from consultation of data on the global palm oil industry and the Filipino economy. The primary data is qualitative in nature, which was collected during fieldwork in the Philippines between April and July 2017. Fieldwork was conducted in almost all oil palm producing regions.¹⁵ In particular, primary data is based on (a) participant observation, (b) (semi-)structured interviews, (c) focus group discussions, (d) informal conversations, and (e) fieldwork notes. Interviews were conducted with landowners; individual oil palm growers; general members, board members, and chairmen of oil palm growers' cooperatives; farm workers employed by the companies or by the cooperatives; plantation/milling companies; refineries; NGOs; and government agencies at the barangay (village), municipal, provincial, regional, and national level. In total 137 interviews, 11 participant observations, and four focus groups were conducted. Interviews generally covered themes of current and historic experiences with the oil palm companies; production conditions and performance; labor issues and labor unions; land access and ownership; social consequences; environmental impact; and value chain and upgrading. Participant observations were completed in the production, milling, and refining of oil palm.

The qualitative data analysis begun with the process of organizing and transcribing the information before categorizing and coding this under themes across different actors that

¹⁴ Previously in July 1980, a joint venture agreement was signed between NDC, Keck Seng and Leonardo Ty, which was granted a 20,000 hectares land area for oil palm production. The agreement was cancelled in 1981 due to resistance from the local population (Alternate Resource Center 1986).

¹⁵ The oil palm producing regions (provinces in brackets) visited were: MIMAROPA (Palawan), Caraga (Agusan del Norte, Agusan del Sur), Davao Region (Compostela Valley, Davao City), Northern Mindanao (Cagayan de Oro, Bukidnon), SOCCSKSARGEN (Sultan Kudarat), and Central Visayas (Bohol). Due to safety reasons, a visit the province of Zamboanga was not possible.

emerged during the data collection and transcription process. The qualitative data analysis was conducted using the software NVivo.

4. Oil palm plantations in Agusan del Sur, Mindanao

CARP in practice in the oil palm plantations in Agusan del Sur

The following section discusses the case study of two oil palm plantation companies and three cooperatives in Agusan del Sur, Mindanao, to analyze in detail the interaction between value chain governance and the agrarian reform program CARP, and their implications on social and economic up- and downgrading trajectories for landowners/cooperatives, farmworkers, and plantation/milling companies. The Filipino palm oil industry has been radically transformed with the Comprehensive Agrarian Reform Program (CARP) in 1988 under President Corazon Aquino. In the oil palm plantations in Agusan del Sur, the land was effectively made state land through the NDC (as discussed above) by declaring it alienable and disposable. The redistribution of these public lands involved the Voluntary Offer-to-Sell mechanism, which should have been administered by the DENR. However, the DAR was the main agency involved in the redistribution of those lands. To keep big transnational agribusiness companies within the country, the CARP accommodated particularly large-scale plantation companies with the provision of the leaseback agreement. Instead of granting each agrarian reform beneficiary (ARB) their usual three hectares, the land is distributed collectively through a collective Certificate of Land Ownership (CLOA) to ensure the continuation of plantation agriculture. The CLOA is then in turn leased back to the plantation company. Essentially, the leaseback agreement circumvents the actual transfer of power and wealth from large-scale to small-scale landowners, opposing the spirit of land distribution. The collective nature of the land title issued under the agrarian reform was common practice in the plantation sector in the Philippines (see e.g. Borras 2007); ‘individual splitting’ of farmland was rare (Borras and Franco 2005).

In the oil palm plantations in Agusan del Sur, the two companies under NDC-Guthrie (NGEI and NGPI) formed two different cooperatives named after the companies, i.e. NGEI-MPC (multipurpose cooperative) and NGPI-MPC, consisting of each company’s farmworkers. In 1988, two CLOAs were awarded to the two cooperatives. NGPI-MPC initially consisted of 828 beneficiaries on 3,450 hectares, whereas NGEI-MPC consisted of 799 beneficiaries on 3,469 hectares (interview with DAR Agusan del Sur official). However not all lands were awarded in 1988 due to delayed surveys of the land, therefore beneficiaries were added well beyond 1988. Today, NGEI-MPC consists of 1,191 beneficiaries (DAR

2013); whereas NGPI-MPC's membership has increased to 1,153 members (interview with NGPI-MPC board member).¹⁶ Both cooperatives were solely formed as a result of the looming agrarian land reform. Due to the collective nature of the CLOA, land is demarcated based on the two separate plantation areas, but not for each ARB individually. Furthermore, ARBs under the CLOA cannot sell their individual share, terminate the CLOA or the cooperative, unless accepting to lose their beneficiary rights.

Equally, the nucleus estate managed by API in Trento, Agusan del Sur, underwent the CARP in 1989. The API-Agrarian Reform Beneficiaries Multi-Purpose Cooperative, Inc. (API-ARB COOP), organized in 1988, was awarded three collective CLOAs, amounting to 1,123 hectares out of the 1,427 hectares used as a nucleus estate by API. The remaining 304 hectares are untitled but managed by the API-ARB COOP; claims to the land from the indigenous community persist until today. To date, API has planted 1,699 hectares as part of their plantation estate, leaving an additional 272 hectares (in total 576 ha) planted with oil palm without a land title and subject to overlapping land claims.

The key arrangement brokered by the DAR prior to the issuance of the CLOAs was the leaseback agreement with the plantation companies. In 1990, two years after the distribution of lands to NGEI/NGPI-MPC, the two cooperatives leased the land back to NDC-Guthrie for a term lasting until December 2007 under the same operational system prior to the land reform. Under the leaseback agreement, NDC-Guthrie agreed to pay the two cooperatives a fixed rent of PhP 635 per hectare per year, that is on average for three hectares of land PhP 1,905 per beneficiary per year (\approx USD 78.36)¹⁷, or PhP 5.22 per day (\approx USD 0.21), plus a variable component equivalent to 1% of the net sales from 1988 to 1996, and 0.5% from 1997 to 2007. Similarly, API-ARB COOP leased their land back to API in 1996, agreeing to the same fixed rental as NGPI-/NGEI-MPC of PhP 635 per hectare per year and an additional variable component. Even though the CARP aims to alleviate rural poverty and enhance national economic development, the DAR agreed to the undoubtedly insufficient rental payments to protect the operations of the big multinational oil palm companies.

As a result of the land reform and the limit of corporate landownership of agricultural land to 1,024 hectares, Guthrie sold its 40% share in 1991 to a Filipino-Indian-Malaysian Consortium, renaming the company Filipinas Palmoil Plantations, Inc. (FPPI). The remaining

¹⁶ Membership is highly gendered. Most agrarian reform beneficiaries are male since most of the plantation workers were male; female workers generally worked in the office and were therefore relatively few. For instance, NGEI-MPC currently has 1,025 male and 166 female members (DAR 2013).

¹⁷ Official exchange rate, Philippine per USD for the year 1990 (International Monetary Fund 2017).

60% of government-owned NDC were obtained by FPPI in 1994 as part of the government's privatization program, granting the company full ownership of a palm oil mill and oil palm plantations (Krinks 2003; Villanueva 2011). Similarly, the initial investors of API, Keck Seng, sold their share to a Malaysian-Singaporean consortium.

Ineffective elements of the CARP

In the following sections, it is argued that the key features of the lease agreement brokered under the CARP with the agreement and support of the DAR between the two plantation companies and the cooperatives are ineffective and worsen distributional outcomes.

First, the land was declared to be state land owned by the NDC, disregarding the pre-existing livelihoods and cultivation of the land by indigenous peoples (mainly Manobo) and 'settlers'. Only seven years after the Manobo people were displaced from their land, the DAR pushed for the coverage of the oil palm plantations of NDC-Guthrie and API through collective CLOAs to plantation workers, disregarding ancestral domain claims by the indigenous people and effectively privatizing the land. Hence, the pre-existing land arrangements by the Manobo peoples and other inhabitants have been entirely ignored by the DAR in the redistribution of land, revealing the overlapping land claims and the resulting social tensions. According to interviews with the National Commission on Indigenous Peoples (NCIP) in Agusan del Sur, tribal councils of the Manobo people claim 13,679 hectares in the area of Rosario and San Francisco where NGEI/NGPI-MPC are operating. Similarly, the Manobos are claiming portions of land owned by API-ARB-COOP. Some groups of indigenous people have formally filed title applications (i.e. Certificates of Ancestral Domain Claims or Titles). Many of the claims by the Manobo community not only relate to the expansion of the oil palm plantations, but also to the settlement project by the Filipino government in the 1960s in Agusan del Sur, introducing predominantly Christian migrants from Luzon and the Visayas to Mindanao or the so-called Non-Christian provinces (Tigno 2006).

The heightened social tensions between farmworker beneficiaries (the lessor), the plantation companies (the lessee), and the Manobo peoples have repeatedly emerged from different groups during the fieldwork, such as plantation workers and beneficiaries, barangay (village) officials, DAR and NCIP representatives. Some of these social conflicts are carried out in cooperation with the New People's Army, the armed wing of the Communist Party of the Philippines. The companies have reacted by employing their own private militaries,

namely the Special Civilian Armed Auxiliary (SCAA) at their plantation and milling compounds, further intensifying the conflict.

Second, as discussed above, the farmworker beneficiaries agree to lease back the land to the respective plantation company, transferring all rights and decisions over operation, cultivation, harvesting, and marketing. Consequently, after the implementation of the CARP, the previous landlords (plantation companies) continue to command in large part over the farm surpluses generated from the plantations, yet the risk of operating the plantation is transferred to the farmworker beneficiaries.

Third, the fixed rental in both lease agreements (and their extensions) amounts to PhP 635 per hectare per year, ignoring any increases in land value of surrounding agricultural land, especially due to increasing urbanization. Additionally, the fixed rental includes all taxes on land and arising amortization charges. The ARBs need to pay amortization charges on their newly-awarded land to the Land Bank of the Philippines, covering the valuation of the land at the time of award. Even though the ARBs have been awarded state land, the NDC required payment for the land, reflecting the partial private character of the NDC. As a result, the fixed rental and the later-on added economic benefits are not sufficient to maintain the landowners' livelihoods.

Fourth, it is likely that the two plantation companies colluded in brokering a renewal/amendment to the lease agreement in 1998. All three coops underwent a revision of their lease agreement in 1998 extending the lease for another 35 years until 2032, again brokered by the DAR. Strikingly, the amendment/renewal of the lease of the two milling companies are almost identical, i.e. the same specifications in terms of fixed rent, variable benefits, and length of lease. Hence, both plantation companies decided to keep the land rental and economic benefits low, enabling the milling companies to extract more resources from the cooperatives. Both companies maintain the fixed rent of PhP 635 per hectare per annum, and an economic benefit which increases by PhP 500 each year (see Table 2).

Fifth, the agreement stipulates that the farmworker beneficiaries remain employed as workers on the plantation, which has been updated in the lease renewal to preference given to beneficiaries. The leaseback arrangement implies that landowners become themselves wage laborers on their own land, unable to sustain their livelihoods from the fixed rent and economic benefits components. This type of lease agreement within the plantation sector is not unique; similar cases can be found in the banana (e.g. the Floirendo family) and pineapple sector (see e.g. Borrás and Franco 2005).

Table 2. Economic benefits by FPPI and API given to agrarian reform beneficiaries.

Year	Benefits/hectare/year
1998 – 2002	PhP 1,865 USD 36
2003 – 2006	PhP 2,365 USD 46
2007 – 2011	PhP 2,865 USD 56
2012 – 2016	PhP 3,365 USD 66
2017 – 2021	PhP 3,865 USD 75
2022 – 2026	PhP 4,365 USD 85
2027 – 2031	PhP 4,865 USD 95
2032	PhP 5,365 USD 105

Notes: At the current exchange rate of USD 1 = PhP 51.21, on February 07, 2018.

Source: New Lease Agreement between API and API-ARB COOP, 1999.

Finally, the segregation or partition of the leased land is prohibited as stated in the lease agreement, preventing that the collective land titles are broken up into individual titles. Therefore, farmworker beneficiaries are locked up in the collective title, unable to exercise decision and authority over their awarded lands. However, as a result of the dissatisfaction with the lease specifications, the inability to take production and marketing decisions, and internal conflicts within the cooperatives relating to transparency and corruption allegations, NGPI-MPC and NGEI-MPC have broken up into three and two different groups, respectively, and have filed a petition with the DAR for the individual titling of their land or, alternatively, for receiving a separate collective title for their sub-cooperative under an improved lease agreement with the milling company.

As can be seen from the characteristics of the leaseback agreement outlined above, the implementation of the CARP in the oil palm industry in Agusan del Sur uncovers the ineffective character and the absence of real redistributive land reform. It is evident that even though there was an official transfer of land ownership to farmworkers, no actual transfer of power took place prohibiting the new landowners to control production and the distribution of farm surplus generated from oil palm production.

Consequences for economic and social up- and downgrading

This section analyzes the impact of changes in the institutional framework through the CARP, in combination with the buyer-drivenness of the Filipino palm oil value chain, on economic and social up- and downgrading trajectories for milling companies, ARBs, and

farmworkers. This research finds that, due to the implementation of the CARP, plantation expansion of the companies is highly limited, leading companies to squeeze as much profit as possible from already existing plantations, thereby intensifying trends such as the contractualization of labor. Furthermore, the disproportionate control and power exercised by the milling companies over the farmworker cooperatives as landowners is exacerbated.

Economic up- and downgrading

With the fractionalization of land that followed the CARP, the operating palm oil companies moved increasingly away from their role as planters of oil palm, neglecting upstream investments, and instead focusing on higher value-added activities such as milling and refining.

During the fieldwork, it became evident that the CARP has not lead to the promised increases in land productivity. Both FPPI and API do not apply the recommended amount of fertilizer on the leased land plantations. Similarly, FPPI has decided to not invest in the replanting and rehabilitation of their leased land areas. For instance, the first plantings of the NDC-Guthrie plantation started in 1981 and continued until 1989. The industry standard suggests replanting oil palm after 25 years, since yields decline after that period and harvesting becomes more dangerous due to the height of the palm. However, the company has decided to functionally upgrade into higher-value added activities, such as the establishment of a palm oil refinery in 2012. Due to this neglect of upstream investment, the costs of replanting and rehabilitation of the oil palm plantations are transferred to the cooperatives. As a logical result, the company becomes increasingly reliant on the oil palm fruits of competing palm oil mills due to decreasing yields on their own cooperative plantations. Thereby, the ARBs can expect economic downgrading in the long run due to a decrease in the productivity of the land and thereby the sheer production volume.

In contrast, API has employed an upgrading strategy by increasing the volume of production through massive expansion of their operation into other provinces, i.e. Maguindanao, Bohol, and Palawan. The company is focusing on gaining higher margins by increasing volume, instead of investing upward into oil palm production.

The companies' reluctance to invest in replanting transfers the responsibility to the cooperatives to undertake these substantial investments. However, the cooperatives are generally not able to support the big capital investment needed for removing old palms and planting new seeds. If the cooperatives decide to embark on the replanting, they are forced to apply for a loan at the Landbank of the Philippines. As experienced from the outgrowership

program implemented by API not only in Agusan del Sur but also in other parts of Mindanao and Palawan, the financialization of cooperatives might have detrimental impacts on their performance. As the fieldwork has shown, many cooperatives find themselves trapped in a vicious circle of struggling to pay the amortization and the relatively high interest payments. The priority of the cooperatives is to pay the amortization, thereby reducing costs through decreasing the amount of fertilizer, which results in decreasing yields the following year. If the oil palm trees are neglected for several years, rehabilitation of the oil palm trees is necessary, incurring further financial assistance. Interviews with various cooperatives and representatives of the Land Bank of the Philippines have shown that most indebted oil palm cooperatives struggle to pay back their loans, and most are unable to pay out any benefits to their cooperative members of the income generated from the oil palm plantings.

Social downgrading

Based on the fieldwork, this paper argues that the strategies employed by the two companies operating in Agusan del Sur are primarily geared towards social downgrading for the plantation and milling companies' workforce. Social downgrading takes place through the elimination of labor unions, the wide-spread contractualization of labor, and a lease agreement that is unable to ensure the minimum wage.

First, API has employed drastic measures to eliminate the unionization of their rank-and-file plantation workforce (i.e. low-skill workers such as harvesters, weeders, sprayers etc.), leading to the full contractualization of the general workforce in the plantation and a reduction in the wage due to the lack of a collective bargaining agreement. In 2013, API decided to retrench the entire rank-and-file workforce in the plantation based on the argument that typhoon Pablo, which hit the Eastern part of Mindanao in December 2012, had destroyed much of the plantations. API argued that the palm oil trees' destruction made it financially unviable for the company to keep any of the employees, leaving a large share of the ARBs jobless without being able to claim their share of the awarded land due to the nature of the collective land title. Consequently, the company shifted to a model based entirely on contractual labor, eliminating the unionization of labor, thereby resulting in lower wages as compared to wages of regular workers that are negotiated in collective bargaining agreements. Additionally, the maximum length of these contracts is 5.5 months, significantly increasing the insecurity of employment. Furthermore, since the majority of ARBs of the leased land area are employed by the company, the landowners now find themselves only casually employed on their own land. The retrenchment and subsequent contractualization of

the labor force reflect the dynamic and persisting contestations over effective control of land resources.

Additionally, the retrenchment led to a disruption in the relationship between API and the API-ARB COOP since the majority of its members was affected by the retrenchment. During the fieldwork interviews, it emerged that many of the cooperative members are not willing to renew the lease agreement under the current conditions. Rather, there is a movement within the cooperative to demarcate the individual parcels of land, and individually decide on the contract agreement between the landowner and the company, similar to the case of NGPI-MPC.

The retrenchment of the plantation workers as a result of the agrarian reform program took place frequently in CARP-awarded plantations, such as the multinational fruit company Dole's pineapple plantations in South Cotabato, which retrenched around 3,500 farmworkers (Borras and Franco 2005)

Notably, contractualization of the plantation workforce is not only rampant in API in Agusan del Sur, but in all oil palm plantations in the Philippines. The current national administration has made it one of its primary goals to end the contractualization of labor through Department Order No. 174 Series of 2017 by the Department of Labor and Employment (DOLE). However, to date this has not translated into actions to end contractualization in the Filipino palm oil industry. Moreover, the Department Order may not be able to eliminate but rather intensify the contractualization of workers, since it has effectively legalized the existence of labor service agencies, by granting them the ability to regularize the labor within those agencies.

Second, the fixed rent of PhP 635 agreed by the two companies includes land tax and amortization charges, leaving only a minimal amount, if any, to the landowner. Even though the economic benefit that is paid on top of the fixed rent increases each year, the level itself and the amount of increase are not sufficient to meet the target of the CARP to achieve an equitable distribution of land. For example, the current economic benefits received by the landowners are PhP 3,865 per hectare per annum. Reform beneficiaries usually receive three hectares under the CARP, which results in a total of PhP 11,595 for the economic benefits, plus PhP 1,905 for the fixed land rental. Therefore, the average agrarian reform beneficiary in the oil palm industry under the leaseback arrangement has a total income of PhP 13,500 per year, or PhP 37 (\approx USD 0.72¹⁸) per day. This stands in stark contrast to the current daily

¹⁸ At the current exchange rate of USD 1 = PhP 51.21, on February 07, 2018.

minimum wage (including the cost of living allowance) in Agusan del Sur in the agricultural sector of PHP 280 (\approx USD 5.46) (National Wages and Productivity Commission 2017).

As a result, even though the ARBs were awarded with landownership on paper, de facto no real transfer of power and wealth has taken place, but rather the plantation and milling companies decide on the distribution of surplus generation from oil palm production. Therefore, the CARP has enabled plantation/milling companies to exacerbate social downgrading trajectories for plantation workers and oil palm cooperatives. This is partly due to the buyer-driven nature of the palm oil value chain, wherein the palm oil mills already hold disproportionate power over production units and labor.

Conclusion

The Comprehensive Agrarian Reform Program (CARP) by the DAR has been used to serve the interests of agribusinesses, illustrated through its ineffective elements outlined in the lease agreements between palm oil plantation companies and reform beneficiary cooperatives. The CARP, ostensibly a policy that distributes lands to landless farmers and farmworkers, has in many cases failed to live up to its promise, as exemplified by the case study of oil palm plantations in Agusan del Sur. This is in line with the findings of CARP assessments in plantation agriculture (see e.g. Putzel 1992; Borras and Franco 2005; Borras 2007). There was no actual transfer of power and wealth towards the ARBs. Rather, the plantation companies retained control over the land and the decision-making power of the distribution of the generated surplus. Furthermore, through the implementation of the CARP, oil palm plantation expansion has been greatly limited, resulting in the squeeze of surplus from existing lands and a decrease rather than an increase in the productivity of the land. The plantation companies decided to invest more in downstream activities, such as refining, whilst burdening the farmworkers with upstream investments required for the securing of long-run high-yield production. Thereby, economic and social downgrading have significantly intensified, exacerbated through the buyer-driven nature of the chain, leading to the marginalization and impoverishment of landowners and farmworkers.

This paper concludes that the local institutional specificities, exemplified here as the Filipino land reform program, are an essential determinant of power between different nodes of the value chain, which interact with the prevailing form of chain governance. Specifically, partly due to the buyer-driven nature of the palm oil value chain in the Philippines, the disproportionate power of plantation companies over landowners/cooperatives has been exacerbated with the implementation of the CARP and the leaseback arrangement, resulting

in intensified economic and social downgrading trajectories for landowners/cooperatives and farmworkers. The conclusions drawn here highlight the need for the chain literature to consider land as a factor of production, and its relationship to capital and labor, as a means to shedding more light on the root causes of economic and social up- and downgrading trajectories. Rethinking chain configurations in terms of the role and contestations of land and land access will provide more nuanced understandings of dynamic power distributions along the chain and between chain nodes, which are useful to inform redistributive policy making.

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