



# ANNUAL REPORT

2009/2010



▲ Alien weed control training, Kranskop land restitution project.



Mr Pasco Dyani

Chairperson: Forest Sector Charter Council

Telephone: 082 049 7186

Email: [pasco@bedevco.co.za](mailto:pasco@bedevco.co.za)

Dr Themba L. Simelane

CEO: Forest Sector Charter Council

Office 112, 110 Hamilton Building, Pretoria, 0001

Telephone: 012 309 5812 • Fascimile: 012 309 5841

Email: [simelanet@dwa.gov.za](mailto:simelanet@dwa.gov.za)

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▲ *Mechanised harvesting by Bosbok Ontginning, York plantation, Mpumalanga.*

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# Introduction

## The Forest Sector Charter and the Forest Sector Charter Council



▲ *Dr Themba Simelane (centre) flanked by Viv McMenamin (Mondi) and Tozi Gwanya at the presentation of the draft Forest Sector Charter in June 2007.*

The process of developing the Forest Sector Charter was initiated by the former Minister of Water Affairs and Forestry, Ms Buyelwa Sonjica, and launched at an indaba in April 2005. The objective of the initiative was to achieve transformation of the forest sector in line with the Broad-based Black Economic Empowerment Act No 53 of 2003.

A draft Forest Sector Charter was produced during a two-year consultative process involving stakeholder representatives and experts from the sector. A Steering Committee of 26 members was responsible for overseeing the work of six sub-sector working groups, namely: growers, forestry contractors, sawmillers, charcoal producers, pole producers and paper/packaging/composite board producers. The draft Charter was presented to the sector by the Minister at a second national indaba held in June 2007.

After further consultation and comments from stakeholders and the public, the final Forest Sector Charter was published in the Government Gazette no 32320 of June 2009, and is binding on all the signatories.

The Forest Sector Charter Council was established in May 2008 to oversee, facilitate and monitor the implementation of the Charter, provide interpretation and guidance and report on the status of empowerment in the sector. The Council must also ensure that the Charter is widely publicised and the scorecard, initiatives and undertakings made by industry, labour and government are implemented.

The Council consists of 19 members that represent the stakeholders in the sector, namely government, industry, communities and labour. It is legally constituted as a Section 21 Company. The Council is co-funded by Government (60%) and Industry (40%).

The Charter has a time-frame of 10 years and requires yearly reporting by all the signatories in terms of progress made in the implementation of the Charter.

This is the first Annual Report produced by the Forest Sector Charter Council, and covers the period April 2009 to March 2010.



**FOREST SECTOR  
CHARTER COUNCIL**

**Vision**

“To achieve sustainable BBBEE and growth in the forest sector through active and meaningful participation of all stakeholders.”

**Mission**

“To support, promote and guide transformation of the Forest Sector and secure compliance by stakeholders with Charter requirements.”

**Values**

The Council operates with the following values:

- Good governance
- Transparent
- People-centred
- Dynamic
- Respect for people/integrity
- Respect for confidentiality



▲ *Lion Match plantation, Mpumalanga.*

# Charter Council Members



**Pasco Diyani**  
*Chairperson*

Pasco Diyani is a businessman who retired from Sappi after 22 years of service. He is a director of a number of companies and has vast experience in the forest sector with a strong background in the labour union movement. He is also the chairperson of the Wright Surveillance board. He also has international experience, and was appointed by the State President to represent SADC during the 2002 Zimbabwe general elections and general elections in Lesotho in 2003.



**Gugu Moloi**  
*Former Chairperson*

Gugu Moloi served as chairperson of the Forest Sector Charter Council from its inception to mid-2010. She has a bachelor's degree in Law, a masters in Town and Regional Planning, and a diploma in General Business Management. She has served as chairperson for a number of organisations including Iman Africa, Safcol and the Forest Sector BEE Steering Committee; as vice-chairperson of the Durban University of Technology and a member of the University of KZN Council. She is a former CEO of Umgeni Water, has held a number of non-executive directorships for leading South African companies, and is currently CEO of Drake and Scull.



**Dr Moshibudi Rampedi**  
*Government*

Dr Moshibudi Rampedi has BEd, BEd and BSc Hons degrees from the University of Fort Hare, an MSc Ecology from the University of Wales, DEd from the University of South Africa and a Diploma in Environmental Management. She started her career as an educator, then joined the civil service and was appointed Deputy DG for Forestry in 2006.



**Queen Filani**  
*Government*

Queen Filani has a BA in Public Administration and Political Science from the University of Lesotho. She began her career at the Transkei Land Service as an education and training officer and later joined the Dept of Land Affairs where she was involved in land rights, forestry and development work.



**Thabo Masombuka**  
*Government*

Thabo Masombuka has a BProc and LLB from the University of the Western Cape, where he served on the SRC and also as President of the SA Universities SRC. He started his career as a legal advisor for Liberty Life and Momentum. He is currently chairperson of the Audit Committee for the local municipality and the director responsible for BBBEE Partnerships at DTI.



**Viv McMnamin**  
*Industry*

Viv McMnamin has an MSc in Economics from the University of London and has worked extensively with government, trade unions, NGOs and in politics, focusing on economic development. She is a recipient of the Helen Suzman Award for Leadership and has held seats on several boards. She is currently the Chairperson of Forestry SA and is the Forestry and Transformation Director for Mondi SA.



**Nthato Motlana**  
*Industry*

Nthato Motlana is a graduate of the University of Illinois in Liberal Arts and Sciences, attended Wits Business School, is a former Director of Yorkcor and a past chairman of the SA Lumber Millers Association. Nthato is currently chairman of Sawmilling SA and Timber Marketing Bureau, a councillor for the Institute of Directors and Executive Manager Business Development for Hans Merensky Holdings.



**Watson Nxumalo**  
*Industry*

Watson Nxumalo worked as a laboratory technician at Ngwelezani Hospital from 1973 to 1984, then joined the forestry industry in 1998 and went on to become chairperson of the Zululand Small Growers as well as Chairperson of Forestry South Africa.



**Gay Mokoena**  
*Industry*

Gay Mokoena has a B. Admin (Hons) and a MBL from UNISA. He has worked in the small business development sector for more than 20 years, and is a past chairman of Sawmilling SA. He is a director of the Sisulu Group, York Timber Holdings, the Inkomati Catchment Management Agency (ICMA) and chairperson of the Mpumalanga Housing Finance Company.



**Themba Siyalo**  
*Industry*

Themba Siyalo is an Executive Director of PG Bison where he is responsible for public affairs and transformation. He is part of the senior executive team of Steinhoff Africa and is also CEO of Surinno Solid Surface, a division of PG Bison. Themba previously worked at Sanlam Life where he was responsible for sales and distribution.



**Jane Molony**  
*Industry*

Jane Molony has a BAFA honours from UKZN and an IMM marketing diploma, and has been involved in the Pulp and Paper industry since 1996, initially through the publishing of a trade journal for the industry and later through her appointment as Executive Director of the Technical Association of the Pulp and Paper industry in South Africa.



**Ben Nkambule**  
*Industry*

Ben Nkambule is an independent consultant specialising in social and economic development. He has two Masters degrees (Geography and Public Sector Management). He represents Amahlathi emerging forestry contractors and land claimants in the Council. He has worked as a forestry harvesting contractor and worked in the Premier's office of Mpumalanga from 1994 to 2004.



**Rentia van Tonder**  
*Industry*

Rentia van Tonder joined the IDC in 1996 after a stint with ABSA bank. She has a BSc (Maths and Mathematical Statistics) and a BSc (Hons) Mathematical Statistics from the University of Pretoria. She also has a MBL with UNISA (2001), and the IDCV MDP through GIBS (2004).



**Simangaliso Mkhwanazi**  
*Industry*

Simangaliso Mkhwanazi has a BA in Education from the University of Witwatersrand and has previously worked for the Education Seta, Cullinan Diamond Mine and Promat College. He is currently the CEO of Forest Industries Education and Training Authority which is responsible for the regulation of skills development.



**Jaap Steenkamp**  
*Industry*

Jaap Steenkamp has a BSc Forestry, a PhD in Business Administration from NMMU, an MBA from Stellenbosch University Business School, a Diploma in Road Transport Management from RAU and an Environmental Economics certificate of competence from Rhodes University. He is a senior lecturer at the NMMU, consults widely in the industry and is CEO of the SA Forestry Contractors Association.



**Stephen Bila**  
*Industry*

Stephen Bila is a director of Bila Bros Projects, a subsidiary of Imhitheni Business Enterprise (sawmill and charcoal producers). He has worked with FIETA, and is currently involved in community development work with Xstrata Coal, and with various community builders and non-profit charity organisations in Nkangala Local Municipality.



**Dinga Mncube**  
*Industry*

Dinga Mncube has Diploma in Forestry (Fort Cox), BSc in Forest Management (Washington State University, USA), MSc in Forest Products (University of Idaho, USA), Diploma in Business Management, Mcom in Business Management (University of Johannesburg, RSA). Currently Executive Director of Sappi Paper and Paper Packaging responsible for Sales, Marketing, Logistics and Recycling.



**Sibusiso Gumede**  
*Labour*

Sibusiso Gumede has a post-graduate degree in Social Sciences from the University of Zululand. He is the Social Development Policy Coordinator for the Congress of South African Trade Unions and acting labour convener in the National Economic Development and Labour Council. He is also involved in international negotiating forums such as the UN Commission on Sustainable Development and the Framework Convention on Climate Change.



**Sakhiwo Zako**  
*Labour*

Sakhiwo Zako has been an activist since 1970. In 1977 he joined the trade unions. He obtained an economic diploma in PHR from Damelin in 1980 and has attended international studies on trade unions from the Ruskin College in Oxford. He is also passionate about black economic empowerment and has thus attended a number of courses in transformation aimed at enhancing his understanding of empowerment.



**Mary-Anne Mngomezulu**  
*Communities*

Mary-Anne Mngomezulu, who was a member of the Charter steering committee and has wide experience in local government, is currently a member of the National Forest Advisory Council and PA to the Executive Mayor of Bitou Local Municipality in Plettenberg Bay.



**Moses Qomoyi**  
*Communities*

Moses Qomoyi was a Council member until his untimely death in 2010. He had a diploma in Applied Social Studies, a BA from the University of Warwick and an MA in Social Anthropology from the University of London. Moses worked in Eastern Cape provincial government, was a director of Rance Timber and Amathole Timber Holdings and deputy chairperson of Sawmilling SA.



**Simangele Cele**  
*Communities*

Simangele Cele has a Masters degree in Industrial Sociology and is currently pursuing a Doctoral degree. She lectures Industrial Sociology at the University of Zululand. Simangele has worked as a harvesting contractor for Sappi and Siyaqhubeka and received a DWAF Minister's award in the 'Policy Making and Business Management' category.



**Dr Themba Simelane**  
*CEO*

Themba Simelane has a BSc degree in Forest Management from the University of New Brunswick, Canada and an MSc in Forest Management from the University of West Virginia. He is a qualified forester with a PhD in entomology from Penn State University. Themba was head of the secretariat that provided support to the development of the forestry charter, and has extensive experience working in the forestry industry.

# Forest sector profile

The forest sector, which includes forestry and forest products, is an important contributor to the South African economy, accounting for 1% of the national GDP and 15% of South Africa's trade balance. The sector employs 170 000 people and provides livelihood support to 850 000 people, or a means of survival to almost 15% of South Africa's rural population. It therefore makes a significant contribution to poverty alleviation in the rural areas. The forest sector also alleviates government's responsibility in providing social infrastructure and generates an increased tax base. The income generated in the sector boosts local economic development and further job creation.

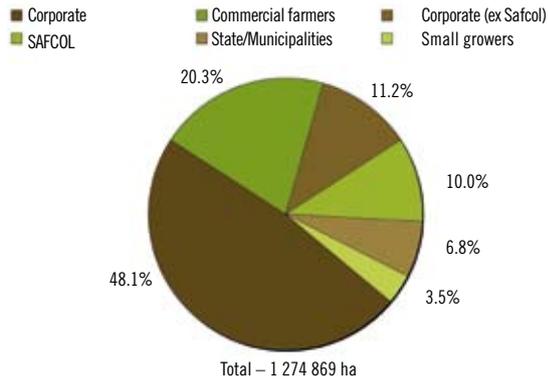
The information presented on pages 7 and 8 provide a snapshot of the forest sector as at 2009, taken from a report by Forestry South Africa.

## MAP OF FORESTRY IN SOUTH AFRICA

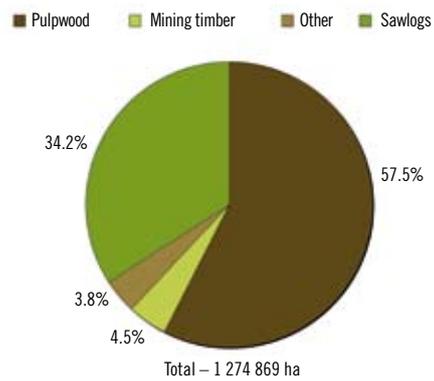


(Source: Forestry South Africa, Genesis Report)

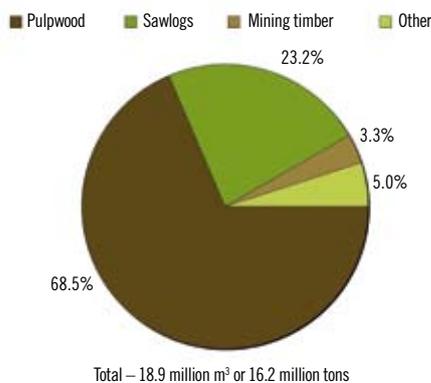
### Plantation area by ownership 2009



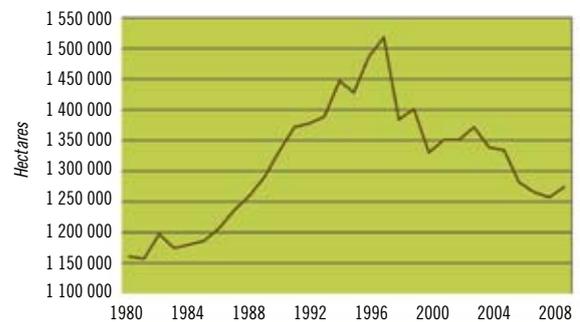
### Plantation area by management objectives 2009



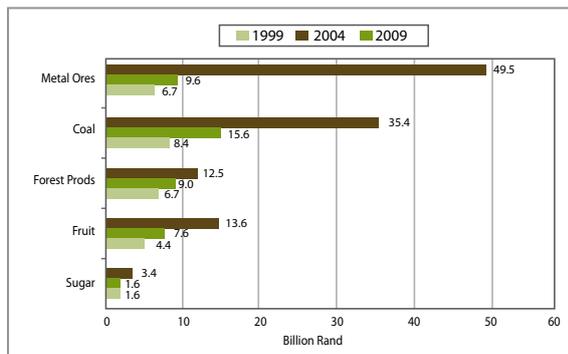
### Total roundwood production ex plantations by product 2009



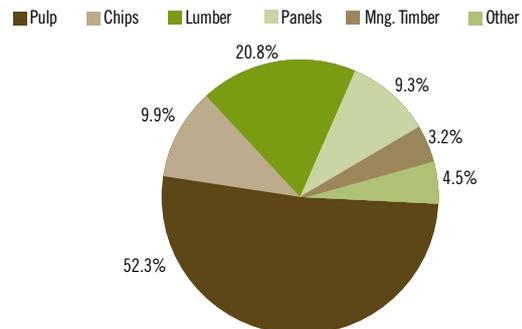
### Total plantation area 1980 to 2009



### Export Comparisons – 1999, 2004 & 2009



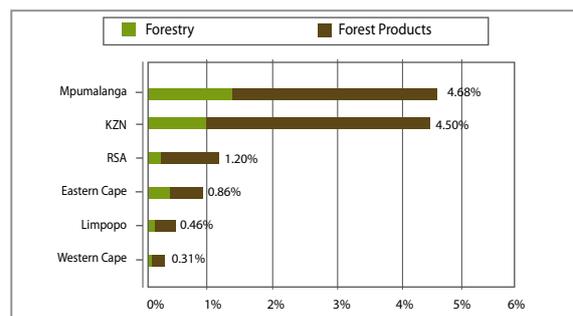
### Value of Sales from Primary Processing Plants 2009



### Forest Sector Employment – RSA 2009

Sub-sector	No. of employees		Total Employment
	Direct	Indirect	
Forestry	66,500	30,000	96,500
Pulp and Paper	13,200	10,800	24,000
Sawmilling	20,000	10,000	30,000
Timber Board	6,000	n/a	6,000
Mining Timber	2,200	n/a	2,200
Other	11,000	n/a	11,000
<b>TOTAL</b>	<b>118,900</b>	<b>50,800</b>	<b>169,700</b>

### Forest Industry Contribution to Total GGP per Region - 2009



# Report on progress made by Government in the implementation of the Forest Sector Charter undertakings

Reporting Period: April 2009 – March 2010

Prepared by the Department of Agriculture, Forestry and Fisheries – June 2010

Following the signing of the Charter in May 2008, government has created an enabling environment for the successful implementation of the Charter. These include the following:

The Department of Agriculture, Forestry and Fisheries (DAFF) has established a Charter Implementation Unit spearheaded by a Programme Manager at Chief Director level to oversee inter-departmental participation and attainment of the targets set for the government. This Unit is also responsible for performing new functions required for the implementation of the Charter. In addition to this, the Forestry Branch has increased its human resources capacity to include the establishment of three Chief Directorates including the capacity to deal with research and development.

The Department of Water Affairs (DWA) has initiated the Letsema project, which is aimed at fast tracking the licensing process. Currently there is an area of 30 000 ha that has been processed and satisfies the licensing requirements in terms of the National Water Act, 1998.

The Industrial Policy Action Plan (IPAP) for 2010/11 to 2012/13 has been finalised by the Department of Trade and Industry. This provides a Plan of Action with regards to industry development and economic growth for the different sectors that have an impact on the economy.

Funding of the Forest Sector Charter Council has been made available. To date, the DAFF has contributed R 2 064 507 towards the Council. In addition to this, R 430 000 was made available for the development of the monitoring and reporting system. In terms of research and development undertakings of the Charter, funding has been made available for the Sirex Woodwasp Programme (R 2 742 000) through Forestry South Africa and R 3 098 537 for the Tree Protection Co-operative Programme (TPCP) at the University of Pretoria.

The major challenge in implementing the Charter has been funding for the different initiatives such as the Environmental Impact Assessments (EIAs) required for the processing and issuing of afforestation licenses, seed funding for fire insurance and the Enterprise Development Fund. The integration of Forestry and Fisheries into the Department of Agriculture

provides a number of opportunities especially access to funding. DAFF is currently in the process of establishing a One Stop Shop Development Finance which will provide access to development finance packages such as grants, credit through intermediaries, technical support and incentive schemes to subsistence, small holder and commercial farmers in the three sectors. The Department has also committed to provide funding for the EIAs during the 2010/11 financial year to ensure that applications are issued and afforestation can commence in the 30 000 hectares that was identified through the Letsema project.

Below are highlights from the Report on progress made by Government in the implementation of the Charter.

## Restructuring of State forest assets in support of BBBEE targets

### Komatiland Forests (KLF):

The restructuring process of KLF has been put on hold pending the finalisation of the land claims on KLF's operating land.

### Category B and C state forest plantations:

The transfer model developed for Mbazwana, Manzengwenya and Mabaso has been developed in consultation with the affected communities and approved by the Minister. A Steering Committee comprising affected stakeholders has been established, and development of a business plan and formation of communities' legal entities has been approved by DAFF.

The transfer plan for Rossbach plantation in Limpopo has been developed by stakeholders, and SEDA is assisting with the development of a business plan.

The transfer plan and a business plan for Injaka plantation in Mpumalanga has been developed.

Davhana plantation community resolutions have been done as well as the transfer submission to the DAFF executive.

### Category A plantations:

The 75% Amathole shareholding is structured as follows:

- 60% owned by Rance Timber
- the remaining 15% is owned by Senzangakhona (Pty) Ltd, a black empowerment company.

DLA/LRAD has approved grants enabling the Amathole Workers Trust to buy 10% equity shares in the business. Sector skills plan for the forest sector

The Sector skills plan has been developed and DAFF is participating in FIETA activities. Forestry workers and members of FPAs have received training utilising FIETA funds.

## Enterprise development

DAFF has developed the Forest Sector Small, Medium and Macro Enterprises (SMME) Strategy for the development of emerging entrepreneurs across the entire value chain. Stakeholder consultations will take place during the 2010/11 financial year.

### Access to funding

DAFF is negotiating with the National Empowerment Fund, Development Bank of SA and the National Development Agency to establish a framework agreement to access funding facilities for enterprise development. However, due to the integration of forestry with agriculture the process of establishing a forest enterprise development fund has been delayed. The forestry grant will be accommodated under the MoU between DAFF and the IDC.

### Expediting the afforestation licencing process

30 000 hectares in the Eastern Cape has been approved for licencing and need EIAs.

### Land rights and land holding structures

DAFF has negotiated and concluded S42D settlement agreements for four community land claims affecting state plantations: Injaka, Rossbach, Hlokozi and Manzenqwenya.

### Raw materials and value-add industries

In terms of its commitment to access raw materials for small scale charcoal producers, a budget of R3 million has been allocated to Working for Forests for the 2010/2011 financial year for the conversion of dense stands of invasive alien trees to woodlots and plantations. R1.5 million has been allocated to the rehabilitation of B and C plantations. Over the last three years around 2 400 ha has been converted in the Bergville, Umkomazi and Greytown areas of KwaZulu-Natal.

The programme has allocated R14 million for value added industries. A number of projects were exited over the last three years and are now operating as independent business (examples Planet Wise - Western Cape, and Invader Craft - Limpopo). In KwaZulu-Natal the Nkandla Walking sticks project is operational. There are currently two projects that are still being supported by the programme in the Mpumalanga region.

The programme supports Syringa Bioscience which is developing alternative products derived from alien clearing, and is contributing to the establishment of the Working for Energy

programme that has the potential to establish between 5 and 11 biomass based renewable energy plants across the country.

## Industry-specific initiatives

### Planning

Forestry programmes have been incorporated in the Provincial Growth and Development Strategies (PGDS) in Limpopo, KwaZulu-Natal, Mpumalanga and the Eastern Cape, thus ensuring that forest enterprise development needs are incorporated in provincial and municipal planning. 49% of municipalities have included the programmes in their Integrated Development Plans (IDPs).

DAFF has appointed a service provider to develop and implement a sawlog growing strategy.

### Forest protection

The Institute of Commercial Forestry Research (ICFR), in partnership with the Food and Agriculture Organization, was tasked with developing a strategy to protect commercial plantations against the combined threats of pests, diseases and fire.

DAFF is a member of the Tree Protection Cooperative Programme and supports the South African Sirex Biological Control Programme.

In order to mitigate fire risks, DAFF has been working closely with stakeholders in ensuring compliance with the provisions of the National Veld and Forest Fire Act. In the past two years, 39 Fire Protection Associations have been established, information sessions have been organised to promote awareness of the Act, including training of Forestry Officers, SAPS, prosecutors and magistrates.

During 2009/10 the Working on Fire Programme (WoF) employed more than 1 800 people involved in integrated veld and forest fire management. The WoF teams participated in the suppression of 747 fires affecting more than 330 000 ha of land, did some 53 000 ha of prescribed burns and more than 5 000 km of fire belts.

The WoF programme has a budget of R207 million for the 2010/11 financial year and plans to create more than 1 900 full time equivalent employment opportunities.

### Land claims

The Regional Land Claims Commissioner (RLCC) has finalised eight forestry claims, which constitute 15% of the total land claims in forestry; four in KZN, two in Eastern Cape and two in Limpopo. The settlement of land claims is progressing slowly due to the time it takes to verify claims.

*NB: Comments from the Department of Rural Development and Land Reform were not received at the time of printing the report.*

# Report on progress made by Industry in the implementation of the Forest Sector Charter undertakings

Reporting Period: April 2009 – March 2010

Excerpts from a Report prepared by Forestry South Africa

Progress towards achieving the undertakings of the Forest Sector Charter is at least one year behind the timeframes specified in the Charter, according to a Report prepared by Forestry South Africa (FSA). The Report cites three important reasons for this, namely:

- Late establishment of the Charter Council: this was scheduled to be done within four months of the signing of the Charter, but in reality it took much longer.
- Economic recession: when the Charter was signed in May 2008 there was little forewarning of the economic recession that reduced the ability of business to fast track transformation as it focused on survival. The recession also impacted on government's ability to fund Charter transformation commitments (eg. land reform).
- Government restructuring: the re-alignment of the forestry portfolio from DWAF to DAFF also had an impact.

## Highlights from FSA's report on progress the industry has made towards achieving its Charter obligations and commitments

### Development of codes of conduct for forestry contracting

This process is being overseen by the Charter Council Contractor Task Team. A draft document has been prepared, however legal compliance concerns have been raised by FSA and are being discussed.

### Development of codes of conduct for emerging forest grower schemes

A draft prepared by FSA in consultation with DAFF and forestry representatives, has been submitted to stakeholders involved in the sponsoring of outgrower schemes for their input.

### Capacity building and support for emerging black entrepreneurs

FSA's Small Grower Support Programme and industry partners have been focusing on this for the past eight years.

### Small forest enterprise development support

FSA's Forest Governance Learning Group SA is addressing this issue. FSA has secured funding for the production of small grower technical information leaflets and has trained over 600 small growers in the use of the tool-kits.

### Strengthen sub-sector organisations' role in support of emerging enterprises

Some 20 000 emerging growers are participants in FSA's emerging Timber Grower Programme. These emerging growers have full access to and equal representation on all FSA committees, including the Executive.

### Establishment of new sub-sector organisations

There is currently no organisation representing charcoal producers. FSA suggests that the Charter Council should engage with charcoal producers to encourage the formation of a representative organisation.

### Co-operation between sub-sector organisations

The recent establishment of the Wood Foundation is an example of how sub-sector organisations are co-operating to promote the industry as a whole.

### Strategies to address pests, diseases and fire issues

FSA is actively participating with the ICFR, DAFF, FABI and others in the drafting of an Integrated Forest Protection Strategy.

### Restitution claims on forest land

Through FSA the industry has been proactive and has developed a number of land transfer models that have been endorsed by the Charter Council. FSA also lobbied successfully for the establishment of a Forestry Land Tribunal to facilitate the restitution process. However the Report states that government funding constraints have all but halted the land restitution process.

# Status of Transformation in the Forest Sector

The forest sector BBBEE Charter Council commissioned LHA Management Consultants to undertake research to assess the status of transformation in the forest sector. Below are the highlights from their report, released in 2010.

## Scope of Research

The research consisted of two phases:

1. The establishment of a comprehensive database on forest sector enterprises per sub-sector, which included more than 85% of medium and large forest sector enterprises.
2. The establishments/companies were then contacted either by phone or by e-mail. During the interviews with respondents it became clear that the most effective route to obtain scorecard information was from available accredited scorecard reports. Respondents were requested to mail this to LHA. Many respondents indicated that they were in the process of compiling their scorecard information through an accredited agency but that this will take some time for completion. The result of this focussed data collection exercise was that scorecard information was obtained covering 150 forest sector establishments and on a weighted basis about 70% of activity (value of output) of the forest sector.

Although some gaps still exist regarding sub-sector coverage, e.g. little information could be obtained on charcoal producers and wood chip exporters, we believe that the information is sufficiently representative to provide a good picture of the status of transformation in the forest sector at this time.

It should be noted that some companies, e.g. the large pulp and paper companies and sawmilling groups supplied one scorecard covering all their operations. In our assessment we allocated the scorecard rating to both the two major activities eg to forestry and pulp and paper, or to forestry and sawmilling.

## Forest Sector Structure and Coverage

The forest sector covers plantation forestry, harvesting and transport to primary processors and the primary processing sub-sectors. Most of the harvesting and transport activities are performed by contractors.

Table 2.2 provides an estimate for the current value of output of the various sub-sectors (including contracting) as well as an estimate of each sector's value-added/contribution to the RSA economy.

**TABLE 2:2 - ESTIMATED OUTPUT AND VALUE-ADDED BY FOREST SUB-SECTORS (2009)**

Sub-Sector	Value of Output (Rm)	Value Added (Rm)	Weighting
Plantation Forestry	5 200	2 340	18
Contracting	3 080	1 080	8
Pulp Mills	11 500	5 100	40
Sawmilling	5 400	1 900	15
Board Mills	2 100	950	7
Chipping	2 100	620	5
Charcoal	900	360	3
Mining Timber	850	310	2
Poles	600	200	2
<b>TOTAL</b>	<b>-</b>	<b>12 860</b>	<b>100</b>

The broader picture is presented here to allow proper interpretation of results in terms of the importance and weighting of the various sub-sectors.

Four sub-sectors namely plantation forestry, contracting, pulp mills and sawmilling account for more than 80% of the total value generated by the forest sector. Board and chip production are also significant sub-sectors, contributing a further 12% to the total value added of the forest sector.

One of the key characteristics of the forest sector is the extent of vertical integration. About 90% of plantation output is consumed by primary processors belonging to the same companies or groups.

## Summary

Based on the data supplied it is possible to establish the coverage of the forestry sector in terms of B-BBEE scorecard information. Small enterprises (exempted micro-enterprises) with a turnover of less than R5 million p.a. need not complete the scorecard and are automatically rated as Level 4 or Level 3 if the enterprise has over 50% black ownership and it complies with the codes of good conduct. Estimates of the market shares of these smaller players in each of the sub-sectors have been made and are included in the information shown in Table 2.6.

**TABLE 2:3 - SCORECARD COVERAGE OF THE FOREST SECTOR**

Sub-sector	Weighting	Estimated coverage <sup>1</sup> of sub-sector		Total (%)
		Medium-large companies%	Exempted micro enterprises (%)	
Plantation forestry	18	70	18	88
Contracting	8	15	16	31
Pulp and paper	40	100	-	100
Sawmilling	15	68	13	81
Board mills	7	64	-	64
Chipping	5	37	-	37
Charcoal	3	-	40	40
Mining timber	2	90	-	90
Poles	2	30	25	55

*Note: <sup>1</sup> Coverage indicates the percentage of sub-sector output for which scorecard information has been received, or EME status applies.*



▲ NCT Durban Woodchips loading for export, Durban harbour.



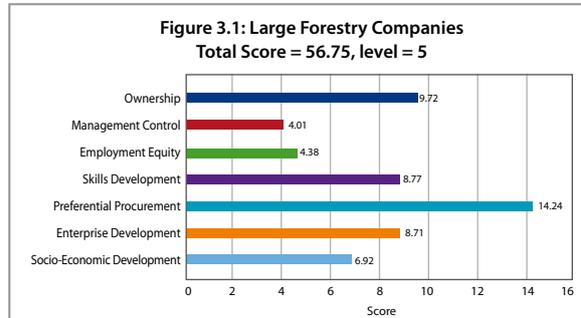
▲ Boards drying, PG Bison board plant, Ugie.

# Status of Transformation in the Forest Sector

## Plantation Forestry

An estimated 18% of the total forestry output is accounted for by farmers who produce timber as part of other agricultural crops. Their timber output is generally less than R5 m p.a. We estimate that there are over 200 such timber farmers which could fall in the category of exempted micro-enterprises. The balance is accounted for by large forestry companies which are mostly vertically integrated into secondary processing. On an output basis 90% of the large companies provided scorecard information. Large companies ranged from level 4-6 contribution. On a non-weighted average these companies achieved an average score of 57 (Level 5 contribution). More details are provided in Figure 3.1.

Forestry companies generally score well on preferential procurement, mainly as a result of using contractors to



do silviculture and harvesting and transport. Areas where further improvement is required are management control and employment equity.

## Contractors

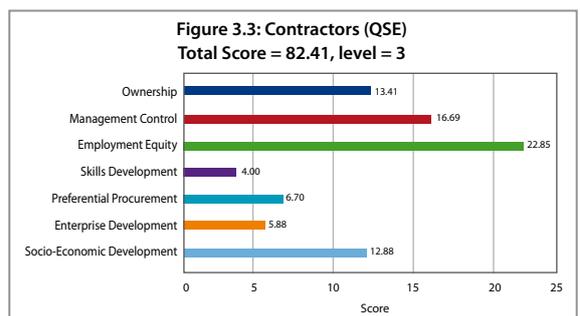
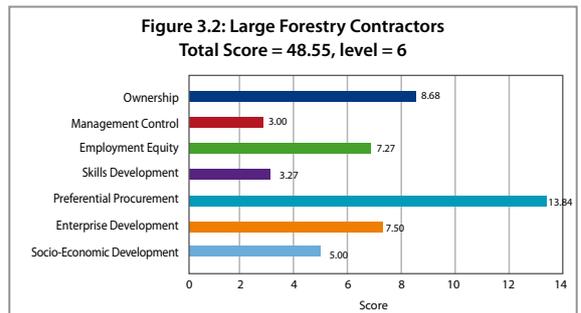
Of the 300 contractors about 40% (125 entities) fall in the category of exempted micro-enterprises. These smaller operators account for approximately 16% of activity in this sub-sector. The balance of contractors are divided into two groups:

- Those with a turnover of less than R35 million p.a., classified as qualifying small enterprises (QSEs), and
- Larger contractors with a turnover in excess of R35 million p.a.

A summary of scorecard information for large contractors is presented in Figure 3.2.

Little progress has been made in areas of management control and skills development.

The qualifying small contractors achieved the highest overall score (82.4) of all sub-sectors. Considerable progress has been made in employment equity, management control and ownership. Skills development, however, could receive more focus and attention. The results are presented in Figure 3.3.



## Sawmills

Sawmills can be divided into three categories, as follows:

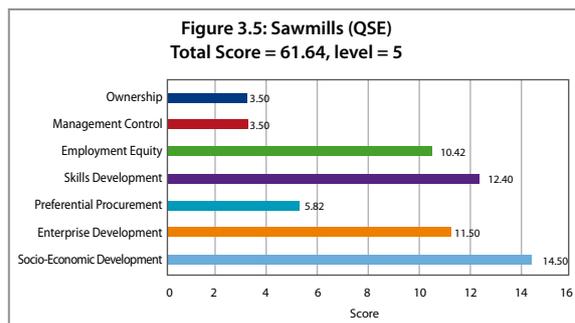
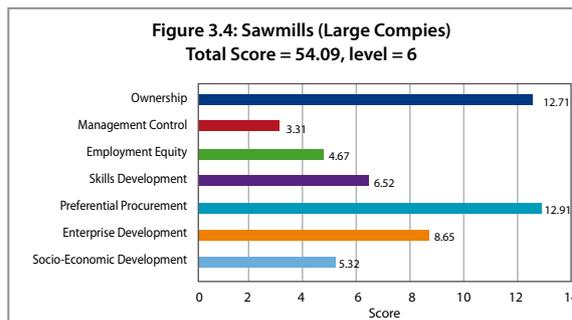
- Large sawmilling groups with turnovers well in excess of R35 million p.a. (18 mills)
- Qualifying small mills (25 mills)
- Exempted micro mills (± 150 mills).

Scorecard information for the largest sawmilling groups is presented in Figure 3.4.

This grouping does well on ownership, probably as a result of the restructuring of state-owned plantations which were transferred (mainly sawlog plantations) to large sawmilling groups. The restructuring required certain levels of Black ownership. Areas of concern remain management control and employment equity.

The scorecard data for the qualifying small sawmills are presented in Figure 3.5.

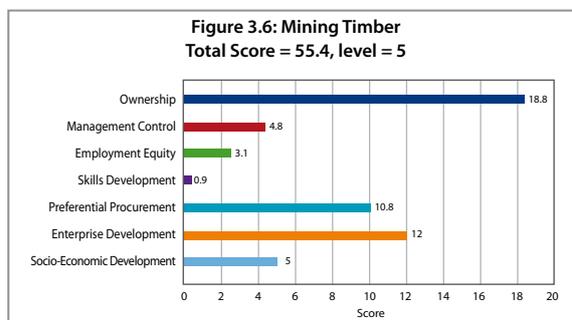
For this category high scores are achieved for socio-economic, skills and enterprise development. Little progress has been made with ownership and management control.



## Mining Timber

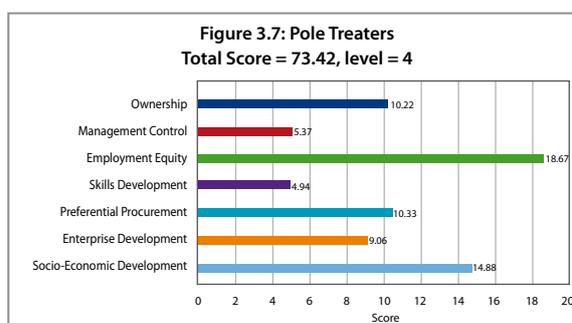
This section contains the scorecard information for the two large dominant mining timber suppliers which together account for over 90% of mining timber activity in South Africa.

Good progress has been made with ownership and enterprise development. Considerable effort and investment is needed in skills development, management control and employment equity.



## Poles

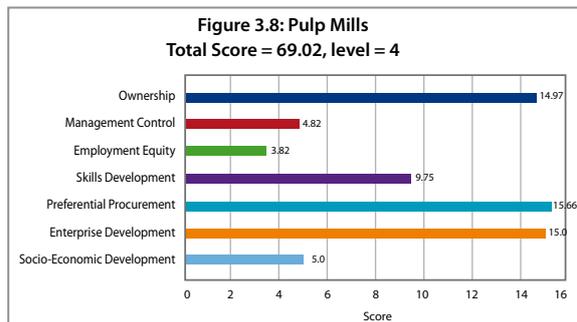
The majority of pole treaters (90) fall into the category of exempted micro-enterprises. The scorecard results for the sub-sector are summarised in Figure 3.7. The sector does well in employment equity, socio-economic development and ownership. Further development and progress can be achieved in management control and skills development.



## Pulp Mills

Both pulp and paper companies completed the scorecard questionnaire for their total operations, including plantation forestry and pulp and paper activities. The scorecard information presented in Figure 3.8 therefore covers all activities within these groups.

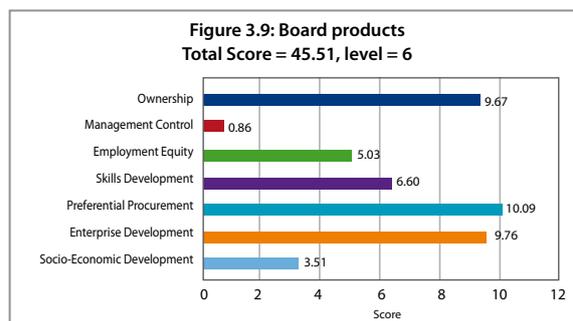
Good progress has been made in preferential procurement, enterprise development and ownership. Future attention could probably be directed towards employment equity, and management control.



## Board Products

Scorecard data for the two enterprises that submitted information is presented in Figure 3.9. This sub-sector achieved the lowest score of the forest sector.

Areas of particular concern include management control, employment equity and socio-economic development.



## Charcoal

No scorecard information could be obtained from the large producers. Respondents from these enterprises indicated that they are currently in the process of completing the scorecards and will be in a position to provide input at a later stage.

## Chipping Plants

Scorecard data available was not sufficient to provide a score for this sub-sector.



▲ *Khulanathi sawmill, southern KwaZulu-Natal.*



▲ *Bracken Timbers charcoal operation, Greytown.*

## Summary

A summary of the scores and levels achieved by the various sub-sectors and size categories within sub-sectors are presented in Table 3.1. It could be argued that scorecard information is more likely to be available (and obtainable during the research) for those enterprises that have made some progress with transformation. The sample (although

it covers a large percentage of activity in the forest sector) could therefore be skewed to present a more optimistic picture. This may be the case but we nevertheless believe that the data presented reflects the status of transformation in the forest sector reasonably accurately.

**TABLE 3.1: TRANSFORMATION STATUS OF FOREST SUB-SECTORS**

Sub-sector	Category by Size of Enterprise	Share of Value of Output of Sub-sector (%)	Score	Level <sup>3)</sup>
Plantation Forestry	Large	70	56.8	5
	QSE <sup>1)</sup>	12	-	-
	EME <sup>2)</sup>	18	-	4
Forestry Contractors	Large	49	48.6	6
	QSE	35	82.4	3
	EME	16	-	-
Sawmills	Large	65	54.1	6
	QSE	16	61.6	5
	EME	19	-	4
Mining Timber	Large	90	55.4	5
Board mills	Large	100	45.5	6
Pole Producers	Large/QSE	75	73.4	4
	EME	25	-	4
Pulp mills	Large	100	69.2	4
Charcoal	Large	60	-	-
	EME	40	-	4
Wood Chips	-	-	-	-

Notes: 1) QSE = Qualifying small enterprises  
 2) EME = Exempted micro-enterprises  
 3) Level = Contribution Level



▲ Loading transmission poles, Ixopo.



▲ PG Bison board plant, Ugie.

The average score for the forest sector, non-weighted and excluding exempted micro-enterprises, is 61, making the industry a Level 5 contributor. There are hundreds of small enterprises falling in the category of exempted micro-enterprises, especially in plantation forestry, sawmilling, pole treating, charcoal production and forestry contractors. These are all at least Level 4 contributors.

Most progress with transformation has been achieved by:

- Qualifying small contractors (score 82.4)
- Pole treaters (score 73.4)
- Integrated plantation forestry and pulp and paper

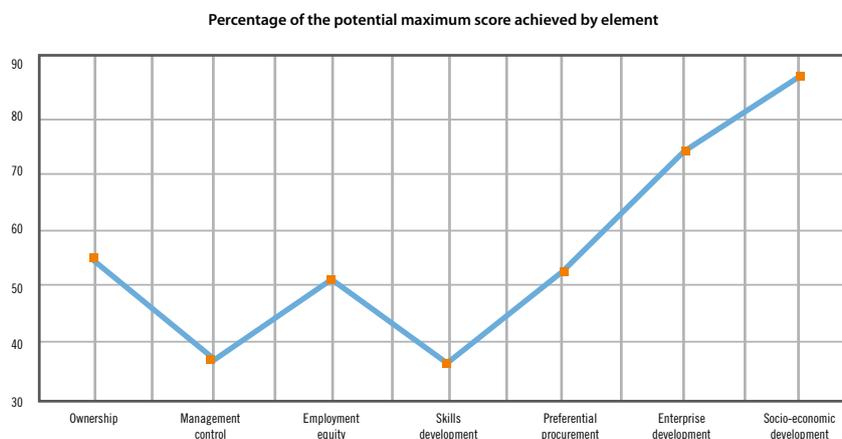
producers (score 69.0)

- Qualifying small sawmillers (score 61.6)

Generally the forest sector is doing well in terms of socio-economic and enterprise development. Much room for improvement, however, exists in the areas of management control and skills development. Figure 4 below illustrates this and expresses the scores achieved as a percentage of the total potential score.

Overall, the sector is roughly at the halfway mark of where it should be.

**FIGURE 4: OVERALL FOREST SECTOR BBBEE TRANSFORMATION PERFORMANCE**



▲ Loading small grower timber, Samungu, KZN.



▲ Mabandla community forestry project, southern KZN.

# Annual Financial Statements

The reports and statements set out on pages 20-25 comprise the annual financial statements presented to the Council:

	<b>Page</b>
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Statement of Changes in Reserves.....	22
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▲ *Small growers, Zululand.*



▲ *Manual harvesting, Pietermaritzburg.*

# Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, 1973 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the financial statements.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and places considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The Council has reviewed the system of internal control and a significant deficiency has been identified in segregation of duties due to staff capacity. Actions are being taken by management to address the deficiencies. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk

management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The Council did not perform any risk assessment for the year under review. This will be done in the next financial year.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2010 and, in the light of this review and the current financial position, are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 22.

The annual financial statements set out on pages 23 to 27, which have been prepared on the going concern basis, were approved by the Council and signed on its behalf by:



**Dr T. Simelane**



**Dr M. Rampedi**

# Directors' Report

The directors submit their report for the year ended 31 March 2010.

## Review of activities

### Main business and operations

The Forest Sector Charter Council (Council) was appointed by the Minister of Water Affairs and Forestry in February 2008. It began operation thereafter supported by the department until the end of the financial year. Following the appointment of the CEO and support staff in November 2008, arrangements and systems were put in place to enable the Charter Council to be fully functional for the financial period 2008-2009 and ensure that measures were in place to ensure scorecard compliance. The Council held a strategic planning session where its business plan, budget, Council's policies, vision, mission and values and company branding - among many other issues - were discussed. It also developed its key performance areas and defined its roles and responsibilities. The Council later met with the Minister of Agriculture Forestry and Fisheries where discussions included the role of the Council in supporting and ensuring that the sector is transformed, delivery on Charter undertakings and priority areas that the Council must focus on.

The focus of the Council during this period was to set itself to function effectively and to popularise the Charter. Task teams were set up to address various matters that impact adversely on the implementation of the Charter. This included; finalising the funding arrangements, developing and adopting the constitution and governance structure, registering the Council as a Section 21 Company and ensuring that the Charter is converted into a sector code by being issued in the government gazette in terms of Section 12 and Section 9 of the B-BBEE Act. The Council also embarked on a stakeholder outreach programme to inform stakeholders about the implications of the gazetting of the Charter and the opportunities that it provides. Whereas the monitoring and reporting system for compliance reporting was being finalised, a manual system was implemented to solicit progress reports from enterprises. A status report has been issued.

The Council had to operate on a limited budget due to the challenging economic conditions faced by government and the sector. Timber sales across all species were down in 2009 in comparison to the previous year; roundwood sales decreased by 14.4%. This decrease had an impact

on the operation of the Council. During this adverse economic environment - especially in the forest sector - the department continued to provide additional support to the Council by availing office accommodation and the necessary infrastructure including computers, telephone and IT facilities and procurement services.

### Revenue

The amount of revenue disclosed in the annual financial statements is R2,920,974. The Forest Industry contributes 40% of the budgeted revenue and the department contributes 60%. The outstanding receivable from the department has not been accrued for in the financial statements based on the resolution by the Council that the money may not be recoverable since the department is also offering the Council with office space and other resources.

### Net surplus

The net surplus of the Council is R 365,345.

### Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### Post balance sheet events

The directors are not aware of any matter or circumstances arising since the end of the financial year.

### Authorised and issued share capital

The Company was incorporated under Section 21 of the Companies Act 1973, and accordingly does not have a share capital.

### Directors

The directors of the company during the year and to the date of this report are as follows:

Dr T. Simelane

Dr M. Rampedi

### Secretary

The company had no secretary during the year.

### Auditors

Sondlo Consulting Services will continue in office in accordance with section 270(2) of the Companies Act.

# Report of the Independent Auditors

**W**e have audited the annual financial statements of Forest Sector Charter Council, set out on pages 23 to 27 for the year ended 31 March 2010. These financial statements comprise the balance sheet as at 31 March 2010, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in

the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Limitation of scope – qualified opinion

In terms of the agreement between the Forest Sector Charter Council and Department of Water Affairs, the department funds the Council 60% of the budgeted amount of revenue. The other 40% is funded by the Forest Industry. During the year under review, the Department paid certain expenses of the Council which include salaries, telephone, and travel claims.

Due to the challenges experienced in obtaining the cost reports from the Department, we were unable to satisfy ourselves on accuracy and completeness of payments made by the Department of Water Affairs on behalf of the Council using alternative procedures. As a result we also could not verify the amount of revenue that is still receivable from the Department.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves on completeness of payments made by the Department, the financial statements present fairly, in all material respects the financial position of the Forest Sector Charter Council as of March 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

## Sondlo Consulting Services

Registered Auditors  
49 Ninth on Lever, Midrand

## Statement of Financial Position

for the year ended 31 March 2010

Figures in Rand	Note(s)	2010
<b>Assets</b>		
Non-Current Assets		1 333
Intangible assets	2	1 333
Current Assets		655 894
Trade and other receivables	3	148 955
Cash and cash equivalents	4	506 939
<b>Total Assets</b>		<b>657 227</b>
<b>Reserves and Liabilities</b>		
<b>Reserves</b>		365 345
<b>Liabilities</b>		
Current Liabilities		291 882
Trade and other payables	5	291 882
<b>Total Equity and Liabilities</b>		<b>657 227</b>

## Statement of Comprehensive Income

for the year ended 31 March 2010

Figures in Rand	Retained income	Total equity
Revenue	6	2 920 974
Operating expenses		(2 555 629)
<b>Operating surplus</b>		<b>365 345</b>
<b>Surplus for the year</b>		<b>365 345</b>

## Statement of Changes in Reserves

for the year ended 31 March 2010

Figures in Rand	Retained income	Total equity
<b>Balance at 01 April 2009</b>	-	-
Changes in equity		
Surplus for the year	365 345	365 345
Total changes	365 345	365 345
<b>Balance at 31 March 2010</b>	<b>365 345</b>	<b>365 345</b>

## Statement of Cash Flow

for the year ended 31 March 2010

Figures in Rand	Note(s)	2010
<b>Cash flows from operating activities</b>		
Cash generated from operations	7	508 938
<b>Cash flows from investing activities</b>		
Purchase of other intangible assets	2	(1 999)
<b>Total cash movement for the year</b>		<b>506 939</b>
Cash at the beginning of the year	4	-
<b>Total cash at end of the year</b>		<b>506 939</b>

# Notes to the Annual Financial Statements

## Accounting Policies

### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. No comparative figures have been presented as this is the first set of financial statements of the council. The following are principal accounting policies used:

#### 1.1 Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. Revenue comprises of 40% contribution from the Forest Industry and 60% contribution from the department.

#### 1.2 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. After initial recognition, Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

#### 1.3 Financial instruments Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial

asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial instruments carried on the balance sheet include trade and other receivables, trade and other payables, and cash and cash equivalents.

#### 1.4 Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective

#### 1.5 Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### 1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

## Notes to the Annual Financial Statements

### Accounting Policies

Figures in Rand			2010
<b>2. Intangible assets</b>	<b>Cost/ Valuation</b>	<b>Accumulated amortisation</b>	<b>Carrying value Valuation</b>
Computer software, other	1 999	(666)	1 333
<b>Reconciliation of intangible assets</b>	<b>Additions</b>	<b>Addition Amortisation</b>	<b>Amortisation</b>
Computer software, other	1 999	(666)	1 333
<b>3. Trade and other receivables</b>			
Trade receivables			145 500
Staff debtors			3 455
			<b>148 955</b>
<b>4. Cash and cash equivalents</b>			
Cash and cash equivalents consist of:			
Bank balances			506 939
<b>5. Trade and other payables</b>			
Trade payables			99 991
Provision for meeting costs			62 400
Employees related cost			23 463
Leave pay provision			106 028
			<b>291 882</b>
<b>6. Revenue Grants</b>			
Department of Water Affairs			1 692 160
Forest Sector Industry			1 228 814
<b>Total Grants</b>			<b>2 920 974</b>
<b>7. Cash generated from operations</b>			
Profit before taxation			365 345
<b>Adjustments for:</b>			
Depreciation and amortisation			666

## Notes to the Annual Financial Statements

### Accounting Policies

Figures in Rand			2010
<b>Changes in working capital:</b>			
Trade and other receivables			(148 955)
Trade and other payables			291 882
			<b>508 938</b>
<b>8. Senior Management Remuneration</b>			
	<b>Acting Chairperson</b>	<b>Minister's Appointees</b>	<b>Total</b>
Basic salary	-	-	777 207
Meeting attendance cost	57 600	62 400	160 000
Leave provision	-	-	61 431
<b>Total</b>	<b>57 600</b>	<b>62 400</b>	<b>998 638</b>
<b>9. Income Tax</b>			
The charter is a Non Profit Organisation incorporated under Section 21. The company is exempted from income tax in terms of Section 18A of the Income tax Act.			

## Detailed Statement of Comprehensive Income

for the year ended 31 March 2010

Figures in Rand	Note(s)	2010
<b>Revenue</b>		2 920 974
<b>Operating expenses</b>		<b>2 555 629</b>
Accounting fees		67 716
Advertising		91 222
Bank charges		649
Depreciation, amortisation and impairments		666
Employee costs		1 407 486
Accommodation		99 275
Meeting attendance - chairperson & councillors		160 000
Meeting and workshop venues		28 070
Employee study costs		32 607
IT expenses		2 854
Incorporation costs		110 756
Printing and stationery		89 794
Staff training		7 442
Staff welfare		4 576
Telephone and fax		12 529
Travel – local		439 986
<b>Surplus for the year</b>		<b>365 345</b>

# Acronyms

BBBEE	Broad Based Black Economic Empowerment
CEO	Chief Executive Officer
DAFF	Department of Agriculture, Forestry and Fisheries
DG	Director General
DLA	Department of Land Affairs
DLDLR	Department of Rural Development and Land Reform
DoA	Department of Agriculture
DTI	Department of Trade & Industry
DWAF	Department of Water Affairs & Forestry
EIA	Environmental Impact Assessment
EME	Exempted micro enterprises
FABI	Forestry & Agriculture Biotechnology Institute
FAO	Food and Agriculture Organisation
FED	Forest Enterprise Development
FIETA	Forest Industries' Education & Training Authority
FPA	Fire Protection Association
FSA	Forestry South Africa
FSC P&C	Forest Stewardship Council Principles & Criteria
Ha	Hectares
ICFR	Institute for Commercial Forestry Research
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IMM	Institute of Marketing Management
ITAC	International Trade Administration Commission
KLF	Komatiland Forests
KZN	KwaZulu-Natal

M <sup>3</sup>	Cubic metres
MBA	Master of Business Administration
MBL	Master of Business Leadership
M, M & M	Mbazwana, Manzengwenya & Mabaso
MoU	Memorandum of Understanding
NFRF	National Forest Research Forum
NGO	Non-government organisation
NMMU	Nelson Mandela Metropolitan University
NWG	National Working Group
p.a.	per annum
PA	Personal assistant
PGDS	Provincial Growth and Development Strategy
PSP	Professional Service Provider
R&D	Research and development
RAU	Rand Afrikaans University
RLCC	Regional Land Claim Commissioner
Rm	Millions of Rands
SA	South Africa
SADC	Southern African Development Community
SAFCOL	South African Forestry Company Ltd
SALGA	SA Local Government Association
SANBI	SA National Biodiversity Institute
SMME	Small, medium and micro enterprises
SRC	Students' representative council
TPCP	Tree Protection Co-operative Programme
UN	United Nations
UNISA	University of South Africa
WfW	Working for Water
WoF	Working on Fire



▲ York Timbers laminated board plant, Sabie.



▲ Siyathuthuka Co-op depot, KZN midlands.