

# ANNUAL REPORT

2011/2012



FOREST SECTOR  
CHARTER COUNCIL



**FOREST SECTOR  
CHARTER COUNCIL**

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# MESSAGE FROM THE CHAIRPERSON

It is my privilege to deliver the second annual report under my chairmanship at perhaps the most exciting and challenging period for Council. In my first annual report, I indicated that I looked forward to reporting on our achievements in the year 2011/12.

Following extensive consultation with our stakeholders and the contractors sub-sector in particular, we are grateful to announce that the Codes of Conduct for Forestry Contracting have been finally approved. These codes will enable all entities involved in contracting to ensure fair, equitable and sustainable contracting and employment practices.

Capital availability for forestry development still remains a chief challenge for most new entrants and small and medium entities. However it is encouraging to note that the financial models from the Companion document solely developed to assist in achieving this goal have since been approved by Council. Council also acknowledges the efforts from Industry and the Department of Agriculture, Forestry and Fisheries in exploring other means of securing grant funding for these entities.

In July 2011, the Council held a strategic workshop facilitated by Sakaza Consulting. From this session, Council concluded their 2012/17 Strategic plan which identified and detailed their priority and strategic objectives and a roadmap of means to achieve these objectives. It is also rewarding to indicate that this strategic plan also encapsulated the results from a SWOT analysis exercise which was helpful in determining the strengths and weakness of the entire Council.

The Foresight exercise conducted in November 2011 also facilitated by Sakaza Consulting was also one of other exercises the Council engaged in. Such a tool and approach was another helpful attempt aimed at determining the desired and preferred future with grand promise for the entire sector.

Achieving a level 4 BBBEE status was also a main highlight of the year under review and this achievement clearly demonstrates the industry' commitment to the sector' trans-



formation agenda. It is significant to note that the Council has approved its web based reporting system. It is also anticipated that the approved web based reporting system will facilitate an improved technique of reporting and monitoring the BEE status of the sector as well as enable for a better method of communicating between the Council, forest entities and interested parties.

In terms of legislative matters impacting on Black Economic Empowerment (BEE), the Council greatly recognises the proposed

amendments to the BEE Act. It welcomed the opportunity to comment and give its position on the proposed changes. Council believes that this initiative will not only assist in strengthening the implementation and monitoring of B-BBEE but will also enhance the sector in meeting its core objectives in so far as black economic empowerment is concerned. The Minister of the Department of Trade and Industry must be greatly thanked for this initiative.

The assistance received from the Department of Agriculture, Forestry and Fisheries and the Department of Trade and Industry with the Environment Impact Assessments (EIA) for our under privileged communities is greatly appreciated. This move demonstrates allegiance from our good Government in ensuring that it delivers for its people.

In February 2012' State of the Nation address, the Honourable President of the State pronounced that the Umzimvubu catchment in the Eastern Cape will be reactivated for agricultural processing. The Council wishes to extend its sincere gratitude to the President and also to the Honourable Minister of Agriculture Forestry and Fisheries for ensuring that this matter is given a priority. We hope that Forestry will take advantage of this pronouncement.

The FSCC is fortunate that it continues to attract and harness people with great minds and high level of responsibility. I am delighted to welcome our new members Dr, Diphoko Mahango, Mr. Roy Southey, Mr. Lulamile Xate and Ms Sebueng Chipeta. On behalf of the Council I wish to extend a warm welcome to all of them and look forward to their constructive and dynamic contributions. I am

absolutely confident that matched with the Council' track record of excellence and expectations, and its tradition of high level of integrity, our new valued members will build exceptional value for the sector now and well in future.

Over the past three years, the Council has also been fortunate to benefit from the professional and assiduous contributions and commitment from Mr. Gay Mokoena, Mr. Nthatho Motlana, Mr. Thabo Masombuka, Ms Rentia Von Tonder and Ms. Queen Filani (who have since resigned from the Council) and the late Mr. Moses Qomoyi. I personally want to thank them all and assure them that the Council will continue to embrace those principles to deliver on its mission.

Furthermore, Dr Themba Simelane, the Chief Executive Officer of the Council for the past three years since its inception, retired at the end of October 2011. His contribution to the Council has been enormous and valuable. His legacy will always be significant as he has played a crucial role in laying the strategic foundation for the Council' development and operations. I thank him for his dedication and vision, and wish him every success in his future endeavours.

In addition we should record the contribution made by the Honourable Minister of Agriculture, Forestry and Fisheries. Her commitment to the work of the Council is fully recognised by all of us and greatly acknowledged.

In conclusion, I wish to extend my earnest appreciation to the entire Council, for their wisdom, their time and their generous efforts. The long hours and dedication in Council' work is principally remarkable and greatly appreciated. I also wish to extend my sincere thanks to our dedicated secretariat for their hard work and their contribution to our shared vision of transforming the sector. They have coped well with the growing demands of the Council work.

I look forward to working with you all towards another year of exceptional collaboration.



Pasco Dyani  
Chairperson



# THE FOREST SECTOR CHARTER COUNCIL

The Forest Sector Charter, signed four years ago provides a road map for the transformation process in the forest sector. The Forest Sector Charter Council comprising of representatives from communities, government, industry and labour was subsequently established to ensure that the Charter is implemented effectively and to monitor the overall progress over the 10 year lifespan of the Charter.

meetings in the financial year 2011/12. During meeting, members, consistently debate around matters impacting on transformation. They also declare their interests that they may potentially have. Good attendance was recorded in all meetings as reflected below.

## Council meetings

In order to review progress made towards their strategic objectives on transformation matters, the Council held four

Summary of meeting attendance Council Members	Council Meetings			
	23/06/11	21/09/11	22/11/11	23/02/12
Mr. Pasco Dyani	P	P	P	P
Mr. Themba Siyolo	P	P	P	P
Mr. Watson Nxumalo	P	A	P	P
Mr. Dinga Mncube	P	A	P	P
Dr. Moshibudi Rampedi	P	A	A	A
Dr. Jaap Steenkamp	P	P	A	P
Mr. Sibusiso Gumede	P	P	P	P
Mr. Sakhiwo Zako	P	A	P	P
Ms. Queen Filani	P	A	P	A
Ms. Jane Molony	P	P	A	P
Mr. Stephen Bila	P	P	P	P
Ms. Mary-Anne Mngomezulu	P	P	P	P
Ms. Viv McMenamin	P	P	P	A
Mr. Ben Nkambule	P	P	A	A
Dr. Diphoko Mahango	P	P	P	P
Mr. Simangaliso Mkhwanazi	A	P	A	A
Mr. Bruce Breedt	A	P	P	A
Ms. Simangele Cele	A	A	A	A
Ms. Sue Middleton	A	A	A	-
Mr. Jacob Maphutha	A	P	P	A
Mr. Lulamile Xate	-	-	P	P
Mr. Roy Southey	-	-	P	P
Ms. Sebueng Chipeta	-	-	A	P

**P-Present**

**A-Absent**

**-Not a member by then**

## Sub-committees and Task Teams

During the financial year, Council was assisted by two sub-committees, namely the Finance and Human Resources committees and four task teams. Each sub-committee and each task team had an independent chairperson respon-

sible for reporting on the activities, decisions and even recommendations on the specific and mandated tasks to the entire Council.

**Details of the composition of the task teams together with their mandate are listed below.**

### Task Teams

Task Team	Members	Mandate
Codes of Good Conduct for Forestry Contracting	Dr. Jaap Steenkamp - Chairperson Dr. Themba Simelane Mr. Sakhiwo Zako Mr. Ben Nkambule Ms. Mary-Anne Mngomezulu Mr. Michael Peter (FSA) Mr. Sibusiso Gumede Mr. Stephen Bila	<ul style="list-style-type: none"> <li>Draft the codes of Good Conduct for forestry contracting that will ensure transparent, fair, sustainable and long term relationships between the employees and contractors.</li> </ul>
Companion document	Mr. Michael Peter - Convener Mr. Pasco Dyani Dr. Diphoko Mahango Mr. Madime Mokoena Mr. Sibusiso Gumede	<ul style="list-style-type: none"> <li>Review &amp; seek advice on the updated financial models in the Companion document from Mr. Erik Buiten- consultant and</li> <li>Provide recommendations to Council regarding the financial models.</li> </ul>
Verification Manual	Mr. Pasco Dyani- Chairman Mr. Michael Peter Dr. Diphoko Mahango Mr. Madime Mokoena Mr. Sakhiwo Zako	<ul style="list-style-type: none"> <li>Review &amp; seek advice on the authenticity of the Forest Sector Verification Manual from the Dti and</li> <li>Provide recommendations to Council regarding the verification manual.</li> </ul>
Strategic Plan task team	Mr. Pasco Dyani- Chairman Mr. Themba Siyolo Mr. Sibusiso Gumede Dr. Diphoko Mahango Mr. Madime Mokoena Mr. Michael Peter Accountants	<ul style="list-style-type: none"> <li>Review &amp; finalize strategic plan and submit to the Department of Agriculture, Forestry and Fisheries for funding.</li> </ul>

## COUNCIL MAIN ACTIVITIES

### Stakeholder engagement

The significant work of the Council has helped facilitate engagements with key departments and stakeholders. In line with our ongoing commitment to maintain constructive relations with our stakeholders, we continuously keep our stakeholders abreast of our activities. Participating in these forums does not only give us a holistic view of the programmes and projects our stakeholders are engaged with but also give us an opportunity to influence debates and strategies in support of efficient implementation of the Forest Sector Code.

### Government departments

The Council has been aggressive about issues around water use licensing as it largely impedes on transformation of the sector. In this regard, it welcomed the opportunity to present its case in so far as the pace on issuing water use licenses is concerned and also on the proposed approach of issuing water use licenses without the consent of other statutory departments. It believes that the inputs it conferred were significant and highly considered and will assist eliminate any unintended and unfavourable consequences.

Council has also interrelated well with the Dti and acknowledges its directive and influential inputs towards a better Council. The meeting with the Dti, DAFF and with the DRDLR furthered the discussion on how best to provide for post settlement support within the forest sector. This interaction did not only ensure better collaboration on issues impacting the sector's performance on BEE such as post settlement support but also allowed for the import of useful ideas across, aimed at driving for valuable transformation.

### National Forest Advisory Council (NFAC)

The Council regards the National Forest Advisory Council (NFAC) as a key organisation in providing holistic advice and creating a favourable landscape for the sector's future. It is content that the submission it made to the NFAC on job creation endorsed for a candid exchange of ideas on the

subject of importance and has cultivated a shared understanding that some expectations and challenges can be met through joint intercessions.

### International Forestry Students' Association (IFSA) symposium

The Charter recognises the importance of extending the benefits of the sector to the youth. The Council partook in the International Forestry Students' Association (IFSA) symposium held by the Saasveld forestry association (SFA) at the Nelson Mandela Metropolitan University's George Campus. This opportunity promoted interaction, cooperation and broadened the knowledge, awareness and understanding amongst forest science students in the Southern Africa on the significance and application of the Forest Sector Code.

### Monitoring and reporting on Charter undertakings

Charter undertakings remain the key obligation of both the industry and government of course with the assistance of labour and communities. In terms of monitoring and reporting on the Charter obligations, much progress has been observed and the Council welcomes the endorsement on some of the following items;

- The adoption of the Codes on Forestry Contracting;
- The remarkable progress made in the issuing of Water Use Licenses;
- The payment of lease rental monies; and
- The payment of Environmental Impact assessments on behalf of the previously disadvantaged communities.

A much detailed report on the progress is shown on page 21 - 23.

### Monitoring and reporting on BBBEE status

Monitoring and reporting on transformation remains one of the Council's main strategic imperative. The sector has made a significant exertion in achieving a level 4 status. A detailed report of the sector performance is shown on page 24 - 38.

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## 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



# 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 9-20 provides a snapshot of the forest sector as at 2011, taken from a report by Forestry South Africa.

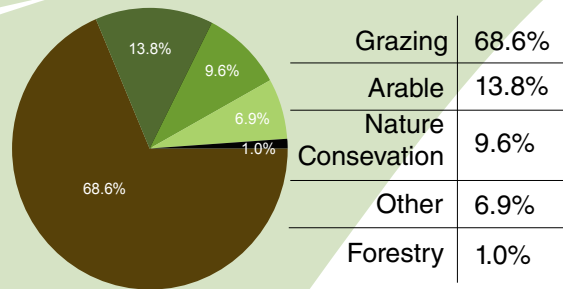
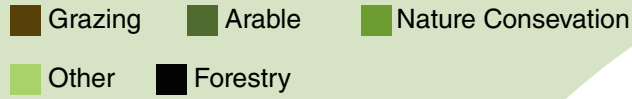
## Map of Forestry in South Africa



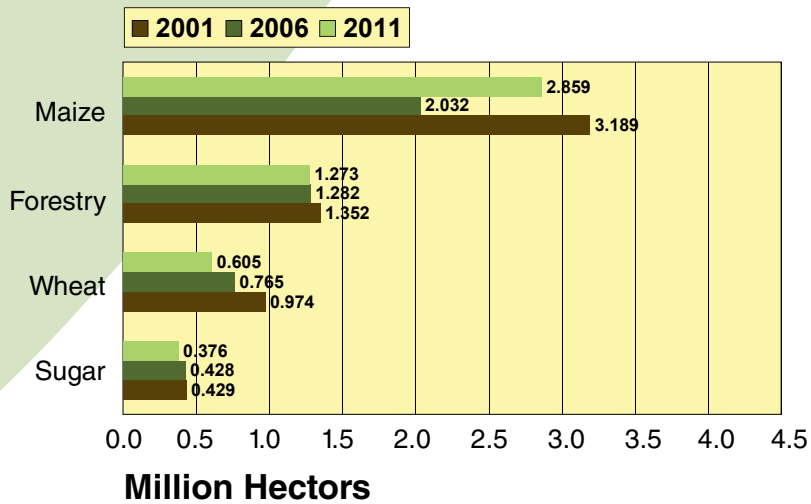
Source: Forestry South Africa report

# The South African Forestry and Forest Products Industry 2011

## Land use in South Africa



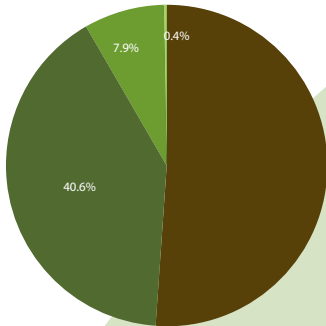
## Land use in Comparisons 2001, 2006 & 2011



# The Forestry Industry

## Plantation Area by Species 2011

■ Pine
 ■ Eucalyptus
 ■ Wattle
 ■ Other

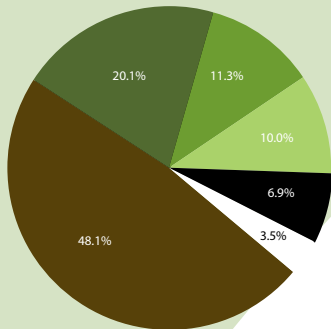


Pine	51.1%
Eucalyptus	40.6%
Wattle	7.9%
Other	0.4%

Total - 1273 357 ha

## Plantation Area by Ownership 2011

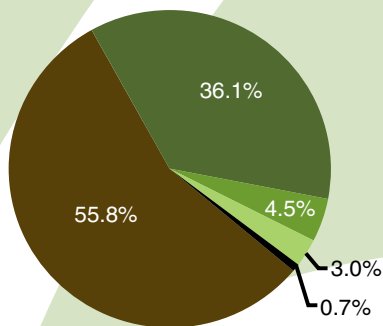
■ Corporate
 ■ Commercial Farmers
 ■ Corporate (Ex Safcol)
 ■ Small Growers
 ■ State / Municipalities
 ■ SAFCOL



Corporate	48.1%
Commercial Farmers	20.1%
Corporate (Ex Safcol)	11.3%
SAFCOL	10.0%
State / Municipalities	6.9%
Small Growers	3.5%

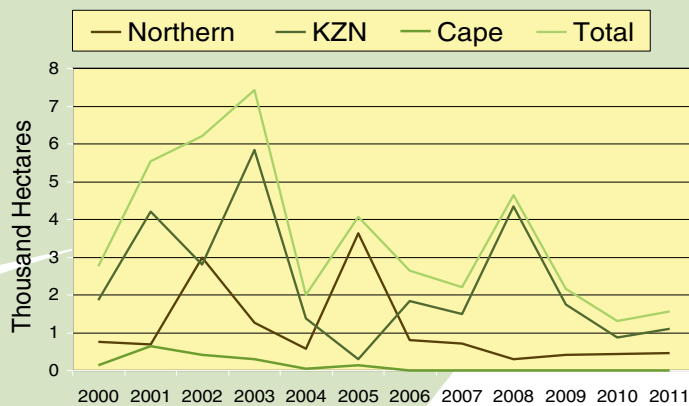
## Plantation Area by Management Objectives 2011

■ Pulpwood
 ■ Sawlogs
 ■ Mining Timber
 ■ Poles
 ■ Other



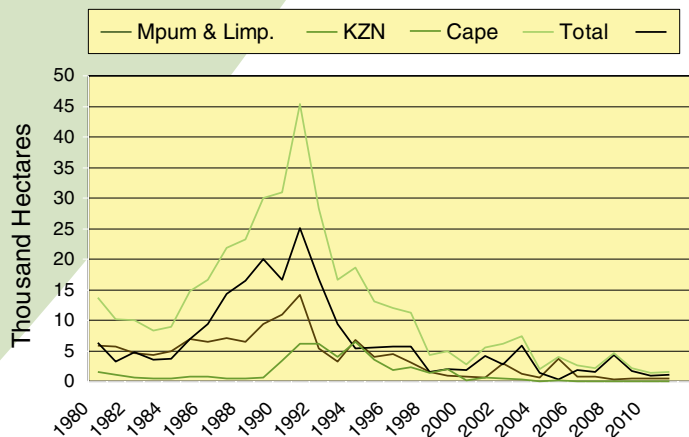
Pulpwood	55.8%
Sawlogs	36.1%
Mining Timber	4.5%
Poles	3.0%
Other	0.7%

### New Afforestation by Region 10 Year Period - 2002 to 2011



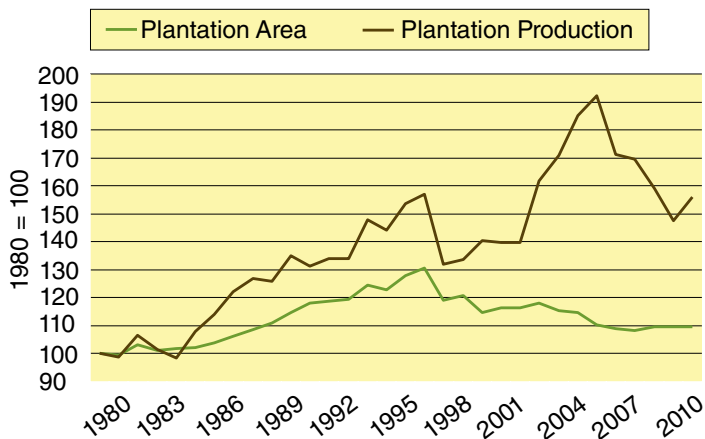
**New Afforestation over Period - 34 223ha**  
**Average per year - 3 422ha**

### New Afforestation by Region 1980 to 2011

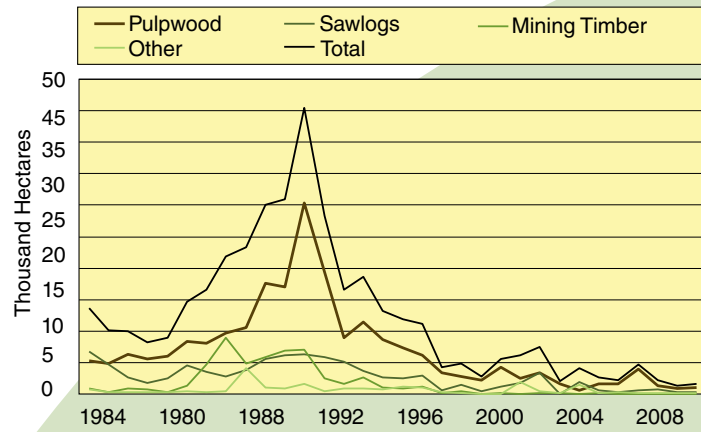


**New afforestation over period - 385 511ha**  
**Average per year - 12047ha**

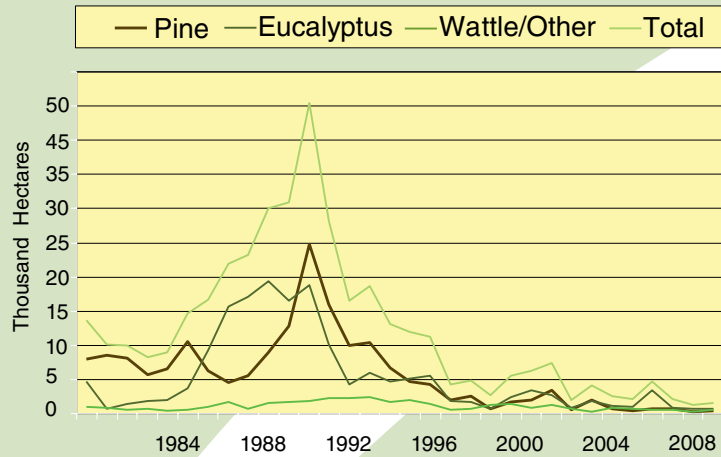
### Roundwood Production vs. Plantation Area 1980 to 2011



## New Afforestation by Product 1980 to 2011



## New Afforestation by Species 1980 to 2011

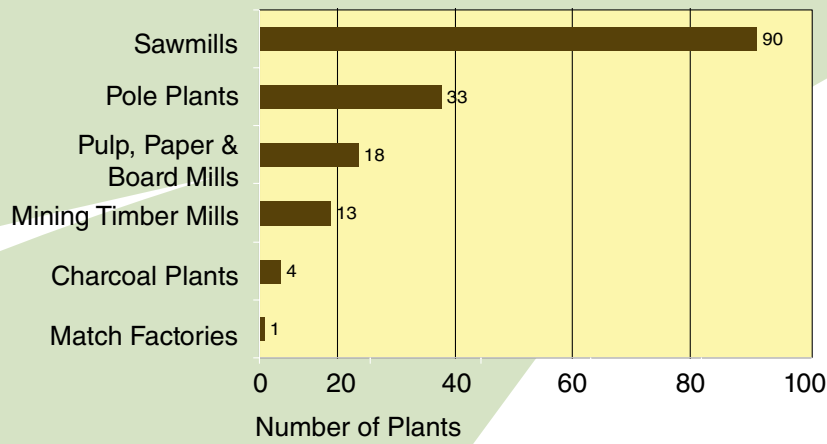


IFSA

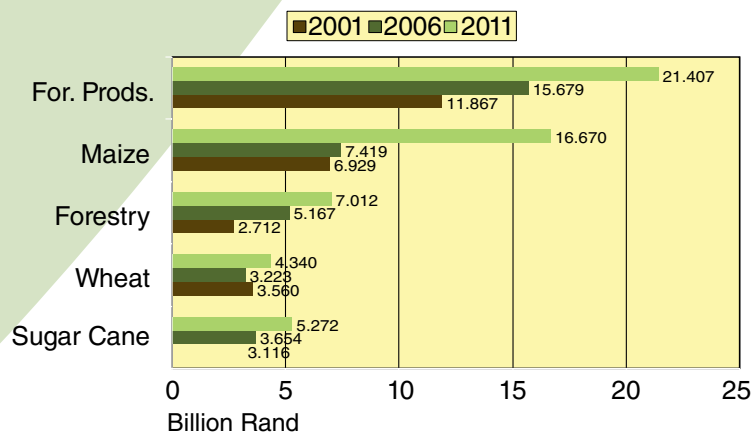


# Forest Products Industry

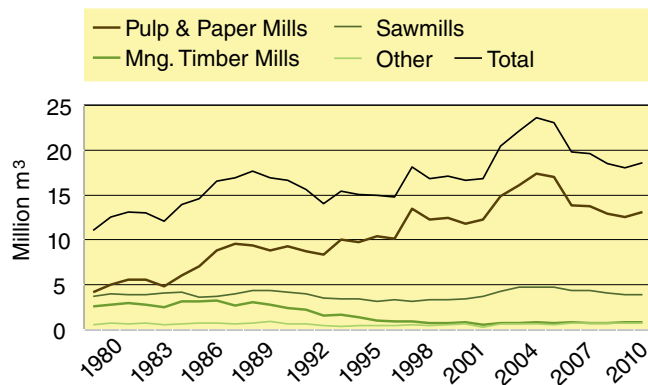
## Number of Processing Plants by Type 2011



## Gross Value of Output Comparisons 2001, 2006 & 2011

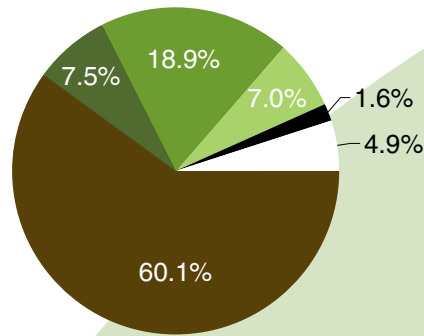


## Intake of Roundwood into Processing Plant 1980 to 2011



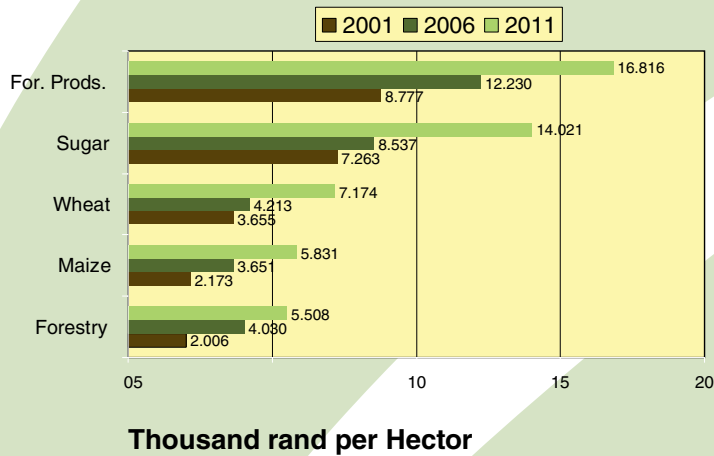
## Value of Sales from Primary Processing Plants 2011

■ Pulp  
 ■ Chips  
 ■ Lumber  
 ■ Panels  
 ■ Mng. Timber  
 □ Other

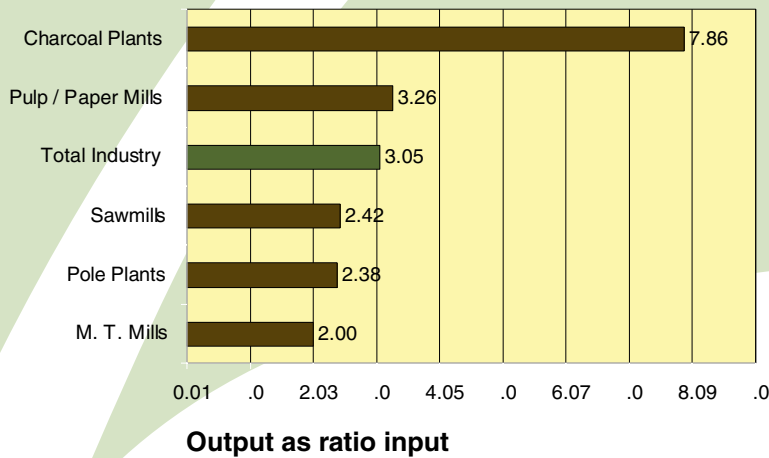


Pulp	60.1%
Chips	7.5%
Lumber	18.9%
Panels	7.0%
Mng. Timber	1.6%
Other	4.9%

## Gross Value of Output Comparisons per Planted Hectare 2001, 2006 & 2011

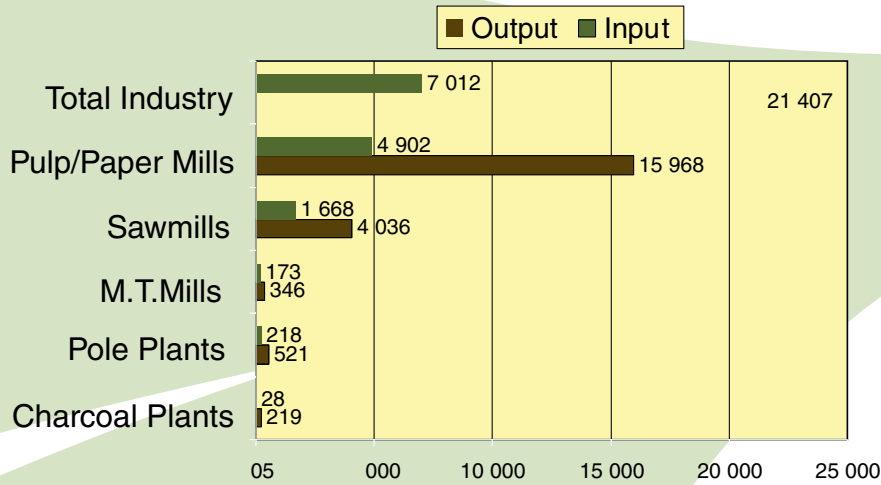


## Value Addition Comparisons in Primary Processing Industry 2011



**Note: Based only on input value of raw fibre (i.e. excludes all other input costs)**

## Value Addition in Primary Processing Industry 2011



Million Rand

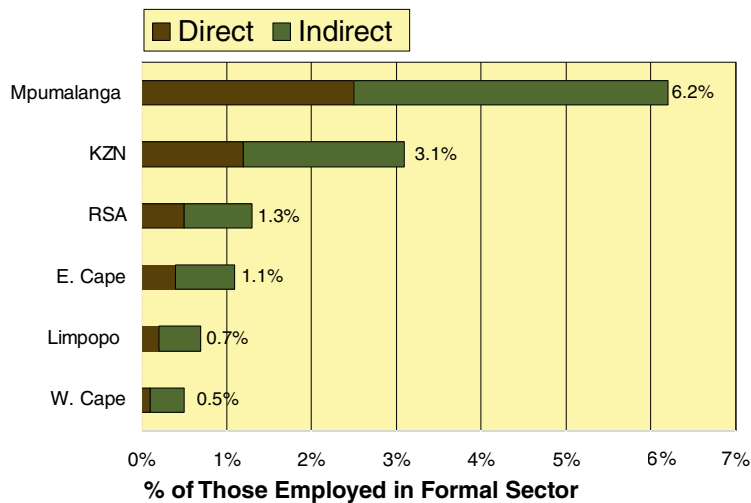
Note: excludes secondary processing (e.g. paper manufacturing)

## Contribution to Employment

### Forest Sector Employment - RSA 2011

Sub-sector	No. of employees		Total Employment
	Direct	Indirect	
Forestry	62,700	30,000	92,700
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>115,100</b>	<b>50,800</b>	<b>165,900</b>

### Total Employment in Industry as % of Those Employed in Formal Sector 2011

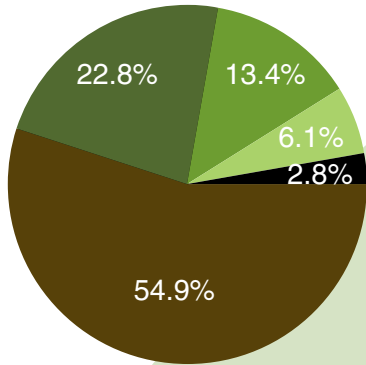




# Industry Contribution to Investment

## Investment in RSA Forestry Industry 2011

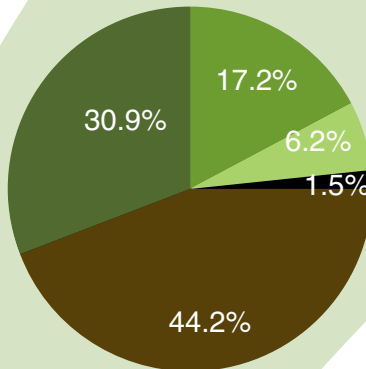
■ Trees ■ Land ■ Roads ■ Fixed Assets ■ Moveable Assets



Trees	54.9%
Land	22.8%
Roads	13.4%
Fixed Assets	6.1%
Moveable Assets	2.8%

## Investment in RSA Forestry Industry 2011

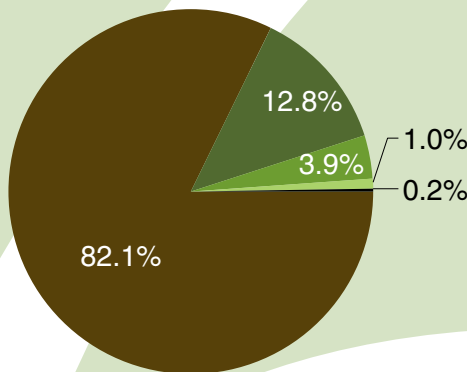
■ Pine Long ■ Gum Short ■ Pine Short ■ Wattle ■ Gum Long



Pine Long	44.2%
Gum Short	30.9%
Pine Short	17.2%
Wattle	6.2%
Gum Long	1.5%

## Investment in Forest Products Sector by Type of Processing Plant 2011

■ Pulp & board ■ Sawmills & Veneer ■ Other ■ Pole Plants ■ Mng. Timber

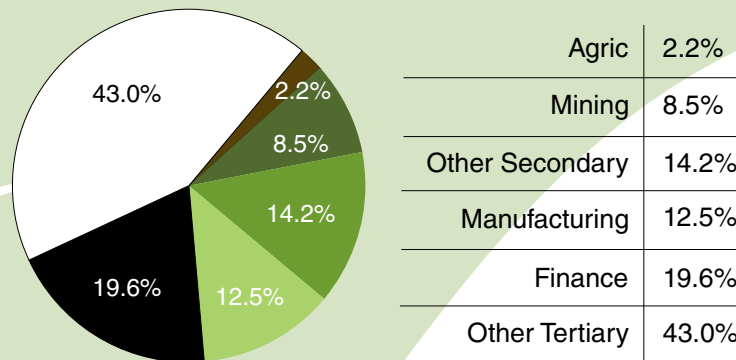


Pulp & board	82.1%
Sawmills & Veneer	12.8%
Other	3.9%
Pole Plants	1.0%
Mng. Timber	0.2%

# Industry Contribution to GDP

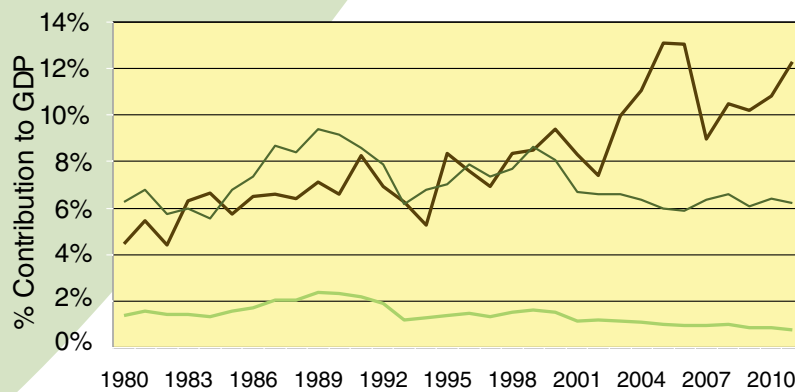
## Composition of RSA GDP 2011

■ Agric ■ Mining ■ Other Secondary ■ Manufacturing  
■ Finance ■ Other Tertiary



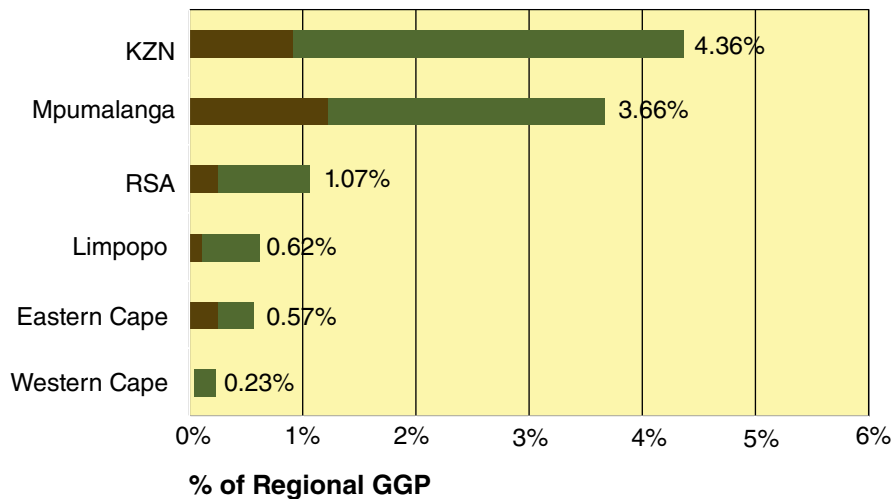
## Composition of GDP 1980 to 2011

— Forestry to Agric. GDP — FP to Mnfg. GDP  
— FP to total GDP



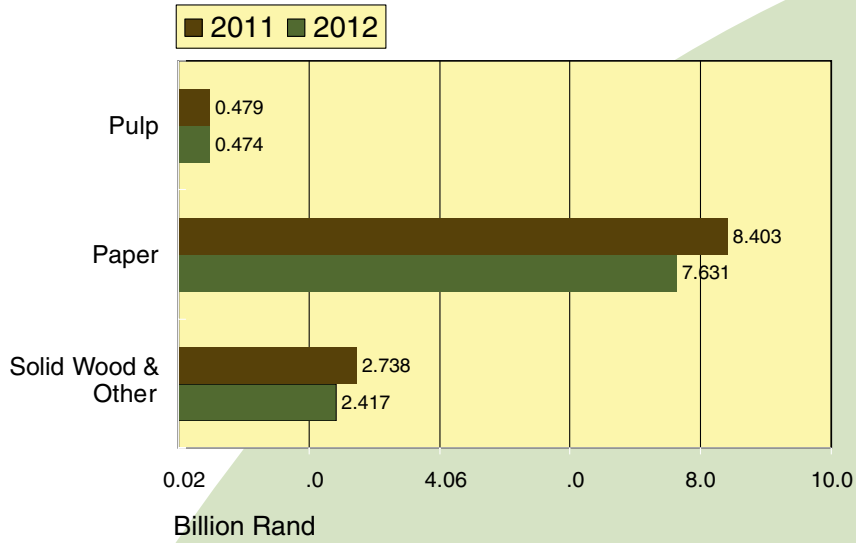
## Forest Industry Contribution to Total GGP per Region - 2011

■ Forestry ■ Forest Products



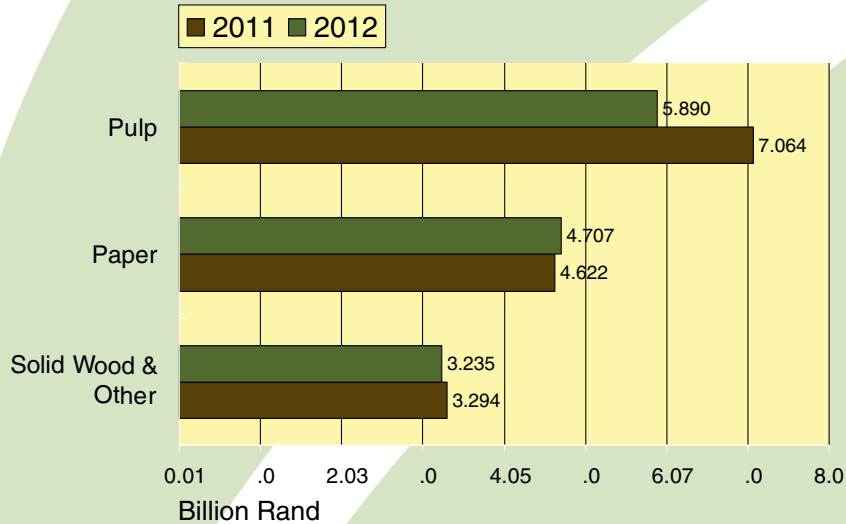
# Industry Contribution to Foreign Trade

## Imports of Forest Products 2012 vs. 2011



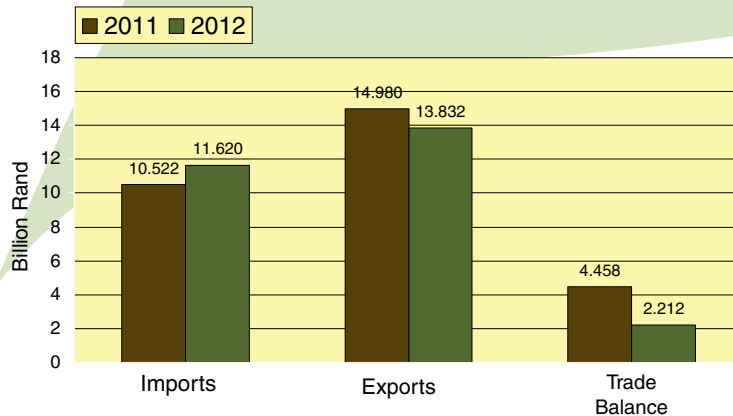
Imports in 2012 R1.1 bn or 10.4% ip on 2011

## Exports of Forest Products 2012 vs. 2011



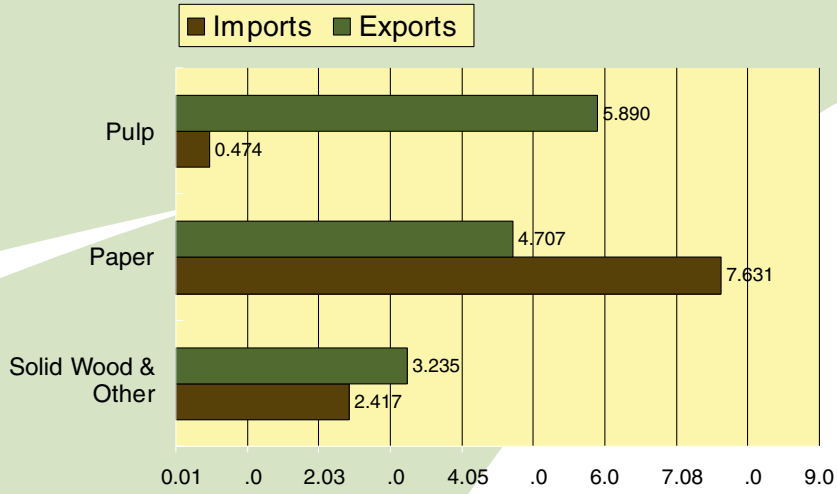
Exports in 2012 R1.2bn or 7.7% down on 2011

## Imports vs. Exports of Forest Products Trade Balance 2012 vs. 2011



Trade Balance in 2012 R2.2bn or 50% less than in 2011

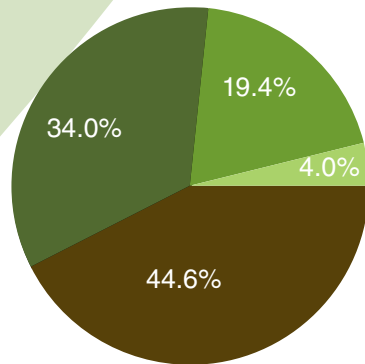
## Imports vs. Exports of Forest Products 2012



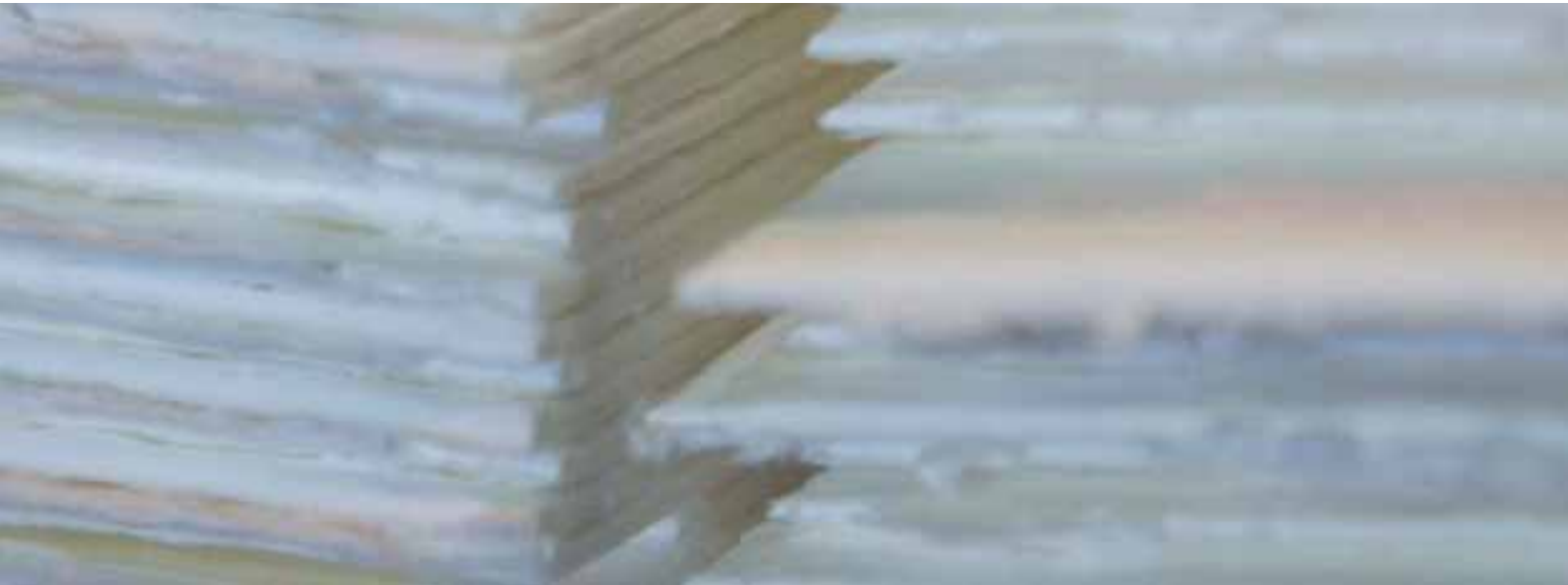
**Positive trade balance in 2012 = R 2.21 billion**

## Forest Product Exports 2012

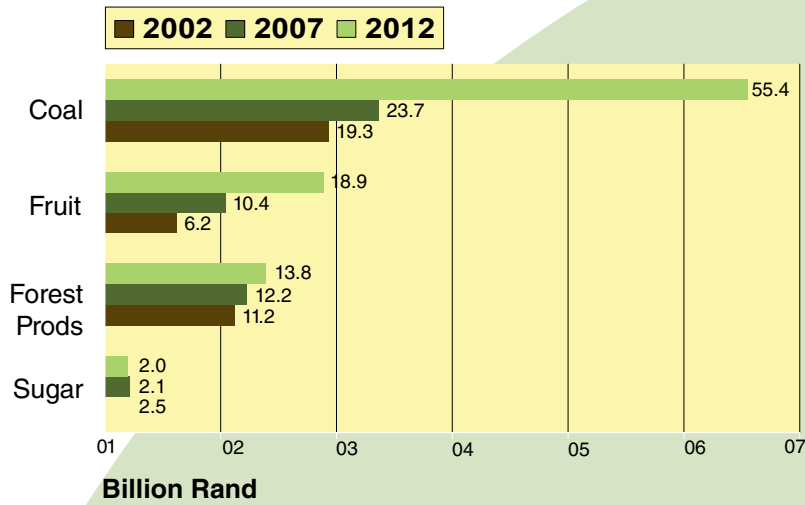
Legend: Pulp (Dark Brown), Paper (Dark Green), Solid Wood (Light Green), Other (Very Light Green)



Pulp	44.6%
Paper	34.0%
Solid Wood	19.4%
Other	4.0%

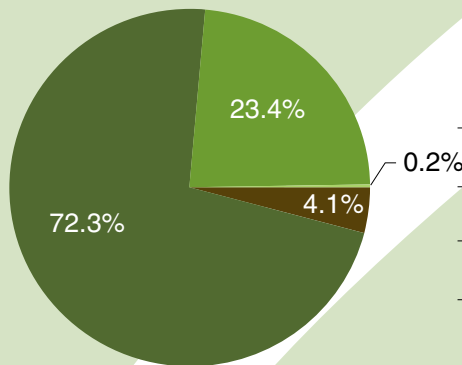


## Exports Comparisons 2002, 2007 & 2012



## Forest Product Impact 2012

Legend: Pulp (Dark Brown), Paper (Medium Green), Solid Wood (Light Green), Other (Very Light Green)



Pulp	4.1%
Paper	72.3%
Solid Wood	23.4%
Other	0.2%



## REPORT ON PROGRESS MADE IN THE IMPLEMENTATION OF THE FOREST SECTOR CHARTER UNDERTAKINGS, 2011/2012

The Charter contains undertakings for both the government and industry in consultation with the community and labour representatives. A highlight of the progress made in terms of the undertakings is reflected below. It is worth mentioning that the reports show progress though funding, available information, skills and capacity are some of the hallmarks that still serve as inhibitors towards attaining the aspired progress.

### INSTRUMENTS TO SUPPORT OWNERSHIP TARGETS

#### Funding facility for B-BBEE transaction

The MAFISA (Micro Agricultural Finance Institutions of South Africa) policy is being reviewed to incorporate forestry. A financial intermediary (with expertise in forestry) will be identified to assess applications and disburse loans on behalf of MAFISA.

#### Restructuring of state forest assets

The review of the future role of SAFCOL and its subsidiary Komatiland Forest (KLF) is in progress. The review will be aligned with the Government's rural development objectives and goals.

#### Mbazwana, Manzengwenya and Mabaso (MMM) Transfer

The Tembe, Mbila and Mabaso Development Trust has been established. An updated transfer plan was approved in July by the trust. However the transfer of Injaka, Davhana and Rossbach plantations in Limpopo are awaiting finalisation.

### INSTRUMENTS TO SUPPORT SKILLS DEVELOPMENT TARGETS

Since the amalgamation of the CTFL SETA, FIETA and sub-sectors of the MAPPP SETA (printing, packaging and publishing) which translated into the formation of the Fibre Processing and Manufacturing (FP&M) SETA in November 2010, a new Fibre, Processing and Manufacturing (FP&M) SETA board has been nominated. A PSP has been appointed to produce a combined Fibre, Processing and Manufacturing Sector skills plan for 2011-2016. DAFF and Industry continue to participate in FP&M activities and give inputs to the FP&M strategies and policies.

#### Further training among some forest sub-sectors

Some forestry labourers and members of Fire Protection Associations (FPAs) have also undergone training utilising funds from the FP& M SETA. 67 employees from the sawmilling sub sector were trained in KZN and Northern EC by FP & M SETA in 2011. A discussion was held with saw-millers in Mpumalanga and Limpopo respectively to converse the roll out of the training programme. However, there hasn't been any training in the Charcoal sub-sector though the Dti has had an opportunity to discuss the impact and the challenges with the respective local municipalities in Kwazulu-Natal and the Eastern Cape.

Despite some challenges, SEDA continues to provide ongoing mentorship to co-operatives and such an initiative is greatly acknowledged. Two cooperatives in the Eastern Cape (Umzimvubu area) were trained on Basic Business Principles and cooperative Awareness in August 2011.

### INSTRUMENTS TO SUPPORT PREFERENTIAL PROCUREMENT TARGETS

The Industry Codes of Conduct for Forestry Contracting have been finalised and endorsed by the Council. They have been sent to all contracting companies. With respect to the Industry Codes of Conduct for Emerging Forest Grower Schemes, a task team has been appointed and a draft has been circulated to stakeholders for comments.



## INSTRUMENTS TO SUPPORT ENTERPRISE DEVELOPMENT TARGETS

### Access to funds and financial services for emerging black entrepreneurs

Funding for forestry based activities still remains a challenge. While DAFF is still in the process of establishing a one stop shop funding facility, it has also approached the National Empowerment Fund (NEF), the Development Bank of Southern Africa (DBSA) and the National Development Agency (NDA) for financial and non-financial support. Industry continues to afford support programmes to small and medium enterprises.

A funding proposal elaborating on a Forestry grant for both short and long rotations (an addendum to the Companion document) has been approved. Funding for the short rotations is being explored under the Emerging Forest Growers Code.

### Capacity building and business support for emerging black entrepreneurs

The Forest Sector Small, Medium and Micro Enterprises (SMME) strategy seeks to identify constraints to the development of emerging entrepreneurs across the value chain as well as establish key interventions and delivery mechanisms. This strategy has been developed and awaiting final approval from DEXCO.

### Expedite the authorisation of afforestation licenses

The current Stream Flow Reduction Activity (SFRA) licensing process takes cognizance of the charter objectives amongst other things, section 27 (1) (b) of National Water Act (NWA), which addresses the need to redress the results of past racial and gender discrimination.

Table 1 shows water use licenses issued for the period of April 2011 to October 2011.

**Table 1**

Groups	Licenses issued	Total hactorage
HDI	27	341.2
Non HDI	15	231.02
B-BBEE compliant	18	3837.17
Total	60	4409.39

(Land rights and land holding structures)

A Green Paper on Land Reform has been tabled in Parliament, and released for public comment. The Green Paper proposes a four tier land tenure system, with the communal land tenure with institutionalised land use rights as a fourth tier. The Green Paper also provides for a "separate policy articulation" on communal land tenure.

### Small grower certification

A draft document on Certification standards has been finalised and received by the National Working Group (NWG). The NWG is consolidating stakeholder comments. The standards will then be sent to the Forest Stewardship Council's (FSC) Board for approval.

### Raw material and value add industries

This programme is aimed at promoting the development of B-BBEE enterprises linked to the utilisation of wood products from invasive alien trees.

A budget allocation of R3 million in 2010/11 to Working for Forest has been utilised for the conversion of dense stands of invasive alien trees to woodlots and plantations. Over the last three years, approximately 2 400 ha has been converted in the Bergville, Umkomazi and Greytown areas of KwaZulu-Natal.

A national assessment of invasive alien plants was completed during April 2010. The information gathered from this assessment, is used to identify quaternary catchments with a potential to contribute significantly towards forest enterprise development. This process is ongoing and is directly linked to the development of the Working for Energy Programme.

For the current year, R14 million has been allocated for value add enterprises. Currently two projects are supported by the programme in the Mpumalanga region. Others are operating independently and these include the Planet wise in the Western Cape, the Invader Craft in Limpopo and the Nkandla walking sticks project in Kwazulu- Natal.

The programme has also been supporting Syringa Bioscience with the development of alternative products for a number of years. The project will soon be assessed in terms of assessing product viability for the commercial market, scientific rigor, research value for money and capacity building of students over the project lifespan.

In addition, the programme has also contributed 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.

## **INSTRUMENTS SUPPORTING INDUSTRY SPECIFIC INITIATIVES**

### **Integrated planning for Forest Sector Development**

The Industrial Policy Action Plan (IPAP) has been revised and a plan for 2010/11 – 2012/13 has been finalised. The sector' growth strategy which detailed the action plans for the identified projects has been completed and forms part of the IPAP 2 document. A framework for supporting the furniture expenditure has also been developed. **Facilitation of Environmental Impact Assessments (EIA)** DAFF and Dti have appointed service providers to undertake EIA for 70 applications for water use licenses in the EC.

The PGDS has been reviewed in Limpopo and updated needs have been included in the Strategy. Forestry programmes have been incorporated in the Provincial Growth and Development Strategies (PGDS) in Limpopo, KwaZulu-Natal, Mpumalanga and the Eastern Cape.

### **Sawlog strategy**

The strategy has been developed and tabled at the FFMC and the branch meeting, its awaiting approval by DEXCO.

### **Forestry Protection Services**

The strategy has been drafted and presented to internal bodies. Final approval is awaited.

### **Transport infrastructure development**

In terms of the requirements of forest development, there is a need to define the transport infrastructure needs for inclusion in the relevant Provincial Freight Transport and local Integrated Transport Plans within municipalities. A PSP has been appointed to conduct an in depth study to determine the current road and rail transport infrastructure. The study will also identify areas that need improvement in order to unlock the obstacles that hamper the conveyance of round wood timber products. The PSP has since tabled the action plan detailing the methodology to the department and stakeholders.

### **Forest Sector Research & Development Strategy**

The Research and Development strategy has been completed and in the process of being published.

### **Restitution claims on forest land**

The developed post settlement models are being reviewed and are brought within the present mandate of the DRDLR and the 12 MTSF outcomes. A plan to settle all outstanding forestry land claims is being developed.

### **Review of levying of property rates in the forest areas**

DAFF has developed a framework to allow for continuous engagements with provincial and local government on forestry programmes and projects. Such projects include fires, greening and forest enterprises.

Courtesy of SAPPI





# STATUS OF TRANSFORMATION IN THE FOREST SECTOR 2011/12

## Background

The Forest Sector Charter Council is tasked, inter alia, with the evaluating and monitoring of transformation in the forest sector. The forest sector comprises the following sub-sectors:

- Forestry (plantations)
- Contracting
- Pulp and paper
- Sawmilling
- Mining timber
- Board production
- Chipping plants
- Poles
- Charcoal production.

A first (benchmark) report on the transformation status of the sector was produced in July 2010. Subsequently, LHA Management Consultants (LHA) was again approached in early 2012 to produce an updated report, with results for the financial year 2012. This report assesses the results for FY2012, with comparisons to the first benchmark study and the FY2011 results.

## Research Methodology

During the first research study, a comprehensive database of forest sector enterprises was compiled, and this database was updated particularly in respect of relevant contact people and contact details for each of the enterprises. Enterprises were subsequently requested to submit to LHA valid B-BBEE certificates for the period covering April 2011 to March 2012. The results provided in this report are

based on the scores per element as recorded on the certificates, with no further details on changes (either positive or negative) within specific elements.

Although some gaps still exist regarding sub-sector coverage, e.g. limited information could be obtained on charcoal producers and wood chip exporters, it is believed that the information is sufficiently representative to provide a good picture of the status of transformation in the forest sector over this period. Also, it should be noted that some enterprises, e.g. the large pulp and paper companies and sawmilling groups supplied one scorecard covering all their operations. In the case of Sappi and Mondi, for instance, it covers plantation forestry and pulp and paper production, and in the case of large sawmilling groups, e.g. York Timbers and Singisi. Forest Products, both sawmilling and plantation activities. In our assessment we have allocated the scorecard rating to both the two major activities, e.g. in the case of Sappi and Mondi, to plantation forestry and pulp production, as they are major players in both sub-sectors.

## FOREST SECTOR STRUCTURE

### Sector Weightings

Based on production output, the contribution of large enterprises, qualifying small enterprises (QSEs) and exempted micro-enterprises (EMEs) across each sector is shown in the table 1 below, as well as the contribution of each sub-sector within the total forestry sector. These weightings are used to present an overview of transformation in the sector as a whole.

**Table 1 – Estimated production output and contribution of sub sectors to the Forest Industry**

Sector	% Within Sector (→)			% of Total Forest Sector (↓)
	Large	QSE	EME	
Forestry	70%	12%	18%	18%
Contractors	49%	35%	16%	8%
Sawmilling	65%	16%	19%	15%
Mining Timber	90%	10%	-	2%
Pole Treaters	25%	50%	25%	2%
Pulp and Paper	100%	-	-	40%
Board Production	100%	-	-	7%
Chipping Plants	100%	-	-	5%
Charcoal	60%	-	40%	3%
<b>TOTAL</b>	-	-	-	<b>100%</b>

**The enterprises that make up the bulk of production output in each sub-sector are shown below.**

Sector	Structure
Forestry	<p>Nine large groups</p> <ul style="list-style-type: none"> <li>• Mondi</li> <li>• South African Forestry Company</li> <li>• Yorkor</li> <li>• MTO Forestry</li> <li>• Masonite (Africa)</li> <li>• Sappi</li> <li>• Hans Merensky Holdings</li> <li>• Amathole Forestry Company</li> </ul> <p>Balance medium/small timber farmers</p>
Contractors	<p>Estimated 300 forestry contractors</p> <ul style="list-style-type: none"> <li>• 150 Medium and some large enterprises</li> <li>• 150 EMEs</li> </ul>
Sawmilling	<p>Total of 250 operating sawmills</p> <p>Large sawmilling groups</p> <ul style="list-style-type: none"> <li>• York Timbers</li> <li>• Hans Merensky Holdings</li> <li>• Cape Timber Resources</li> <li>• Komatiland Forests</li> <li>• Rance Timbers</li> <li>• Sappi</li> </ul> <p>Balance medium sized and small sawmills</p>
Mining Timber	<p>Two large groups</p> <ul style="list-style-type: none"> <li>• Reatile Timrite</li> <li>• Bedrock Mining Systems</li> </ul>
Pole Treaters	<p>Small number of larger companies</p> <ul style="list-style-type: none"> <li>• Woodline Timber Industries</li> <li>• Harding Treated Timbers</li> <li>• Natal Forest Products</li> </ul> <p>Balance very fragmented industry</p>
Pulp and Paper	<p>Two large groups - Sappi and Mondi</p>
Board Production	<p>Three large groups</p> <ul style="list-style-type: none"> <li>• PG Bison</li> <li>• Masonite (Africa)</li> <li>• Sonae Novobord</li> </ul>
Chipping Plants	<p>Three large groups</p> <ul style="list-style-type: none"> <li>• NCT (Shincell)</li> <li>• Mondi (Silvacell)</li> <li>• TWK (CTC)</li> </ul>
Charcoal	<p>Three larger producers</p> <ul style="list-style-type: none"> <li>• E&amp;C Charcoal</li> <li>• Charka</li> <li>• Braai &amp; Barbeque International</li> </ul> <p>Balance very fragmented industry</p>



Large enterprises in the forestry sector are represented principally by pulp & paper (40%), large forestry (13%), large sawmills (10%) and board producers (7%). Qualifying small enterprises (QSE) are mostly represented by timber farmers, forestry contractors, sawmill and pole treaters. Exempted micro enterprises (EME) comprise of small timber farmers, contractors, charcoal producers, pole treaters and sawmills.

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. For instance, a group like Sappi includes in their operations plantation forestry, pulp production as well as sawmilling. B-BBEE scorecards generally cover the total operation and are not split between various sub-sectors, e.g. sawmilling, plantation forestry or pulp and paper production.

### STATUS OF TRANSFORMATION IN THE FOREST SECTOR (FY 2012)

In the following sections the scorecard information obtained is presented to reflect the current FY 2012 status of transformation in the various sub-sectors.

#### Plantation Forestry (Large Forestry Companies)

The South African plantation area is close on 1.4 million

hectares. The large pulp companies and chip exporters have control over about 60% of planted hectares in South Africa.

Verified scorecard data has been obtained from the following enterprises:

Mondi, Sappi, Hans Merensky, MTO, York Timbers, Masonite, Amathole Forestry Company and South African Forestry Company (Safcol).

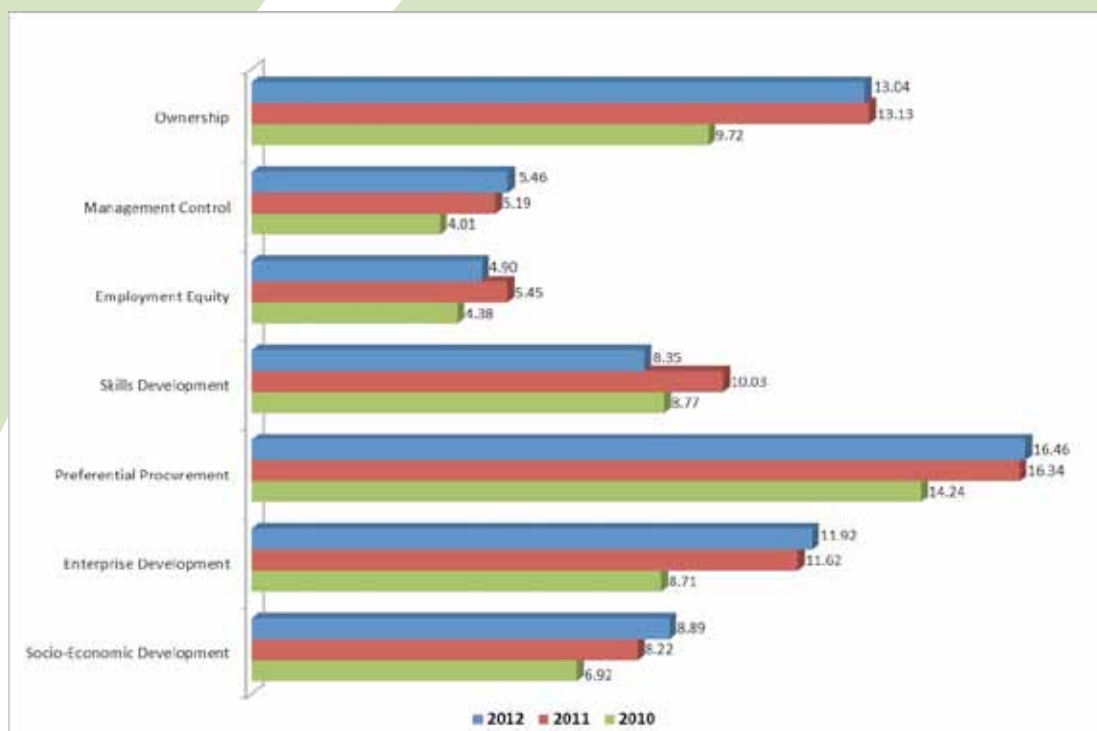
These companies together manage 65% of all plantations in South Africa. In addition, an estimated 20% of plantations are owned and managed by small independent farmers. Their output is marketed and distributed through various timber co-operatives. The bulk of these farmers produce timber valued at less than R5 million per year and would therefore fall into the category of exempted micro-enterprises.

In 2012, total coverage of the large forestry sub-sector was achieved with all enterprises submitting data. This sub-sector showed improvement in management control, preferential procurement, enterprise development and socio-economic development over the analysis period. A decline has been recorded in skills development and employment equity.

The sub-sector achieved a total B-BBEE score of 69, very similar to the year before. This has resulted in maintaining Level 4. Details are shown in the table 2 and graph below.

**Table 2 - B-BBEE scores for Plantation Forestry**

Year	Total B-BBEE Score	B-BBEE Level
2012	69.02	4
2011	69.96	4
2010	56.75	5



## Contracting

There are an estimated 300 forestry contractors active in the forest sector. Main activities include silviculture, harvesting and transport. Silviculture activities account for 30% of total turnover with the balance of 70% equally split between harvesting and transport operators.

The sub-sector employs about 25 000 people. A large number of operations are controlled and owned by black people. It is further estimated that 40% of enterprises have an annual turnover of less than R5 million thus qualifying as exempted micro-enterprises (Level 3 and 4 contributors).

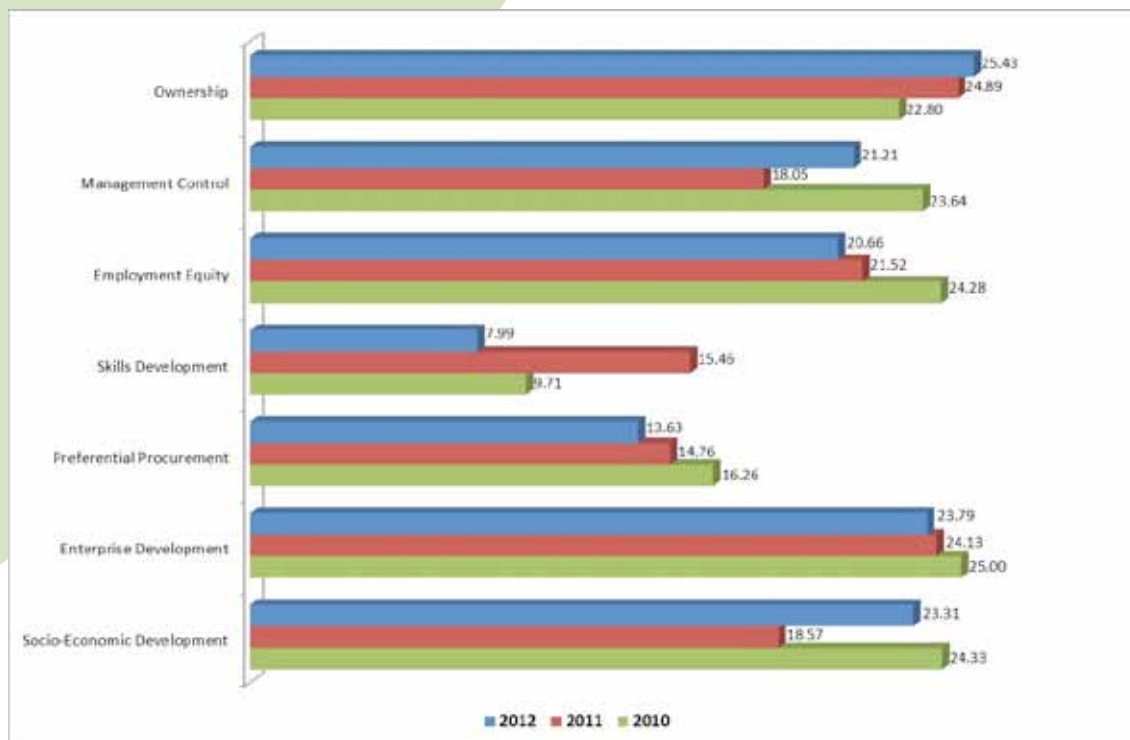
## Contractors (QSE)

The sub-sector achieved a total B-BBEE score in financial year 2012 of 79, slightly up from 77 in the year before. This has resulted in maintaining a Level 3 contributor level. Details are shown in table 3 and graph below.

As a result of the large number of enterprises in this sub-sector, comparison on a constant sample basis remains problematic. The data, however, remains remarkably consistent despite variations in the sample constituents. It should be noted that the total score for QSEs is not equal to the sum of all element scores as only four element scores count.

**Table 3- B-BBEE scores for Qualifying Small Contractors**

Year	Total B-BBEE Score	B-BBEE Level
2012	79.37	3
2011	76.89	3
2010	82.41	3



Of concern is the considerable decline in respect of skills development and preferential procurement, as well as employment equity.



## Sawmilling

South Africa has an estimated 250 operating sawmills. Seven large companies, which between them operate 19 sawmills, account for 65% of total log intake and production of sawn timber. A further 25 independently owned medium sized mills account for 16% of production and the balance by about 200 small and bush mills. Of the latter category, it is estimated that about 80 mills are formal mills and the rest are bush mills/mobile mills.

Most of the large sawmilling groups provided scorecards. Few responses have been received from medium sized sawmills. Most of the 125 bush mills and some of the smaller formal mills have an annual turnover of less than

R5 million and are all classified as exempted micro-enterprises. We estimate that at least 70% of small mills will fall into this category.

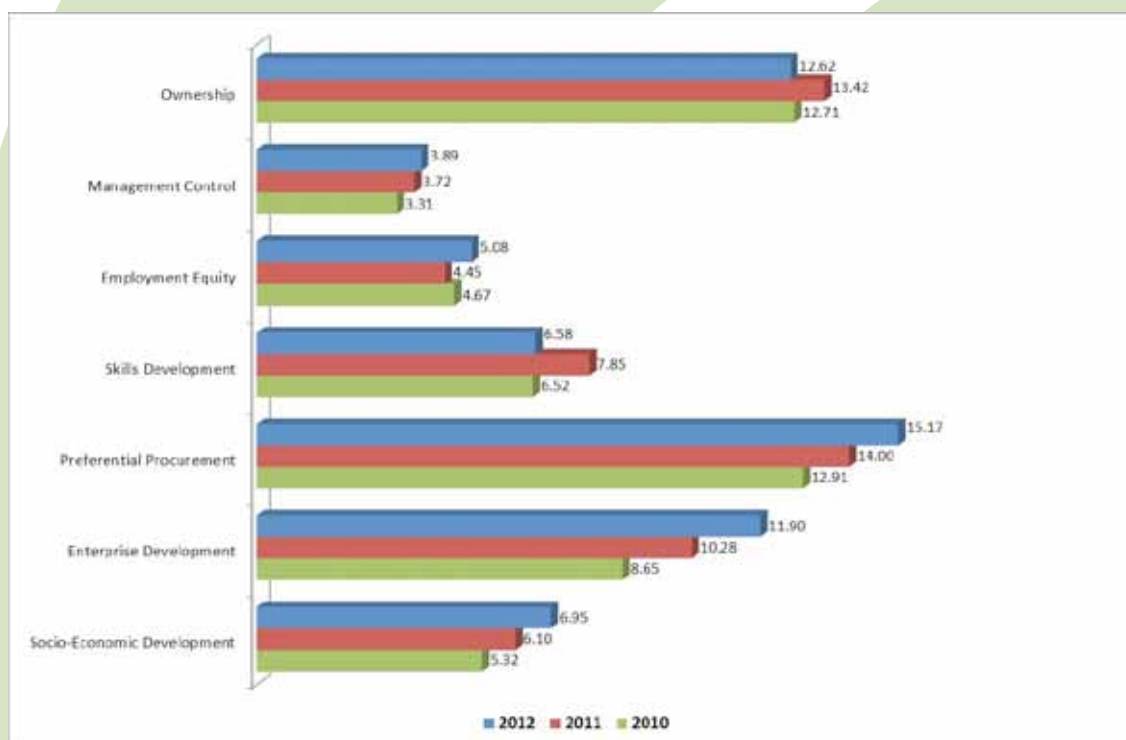
### Large Sawmills

Data for 2012 reflects a good coverage (70%) of the sawmilling sub-sector. The data shows a comparison on a like-for-like basis, i.e. a constant sample.

The sub-sector achieved a total B-BBEE score in financial year 2012 of 62, up from 60 in the year before. This has resulted in maintaining Level 5. Details are shown in the Table 4 and graph below.

**Table 4- B-BBEE scores for Large Sawmills**

Year	Total B-BBEE Score	B-BBEE Level
2012	62.18	5
2011	59.82	5
2010	54.09	6



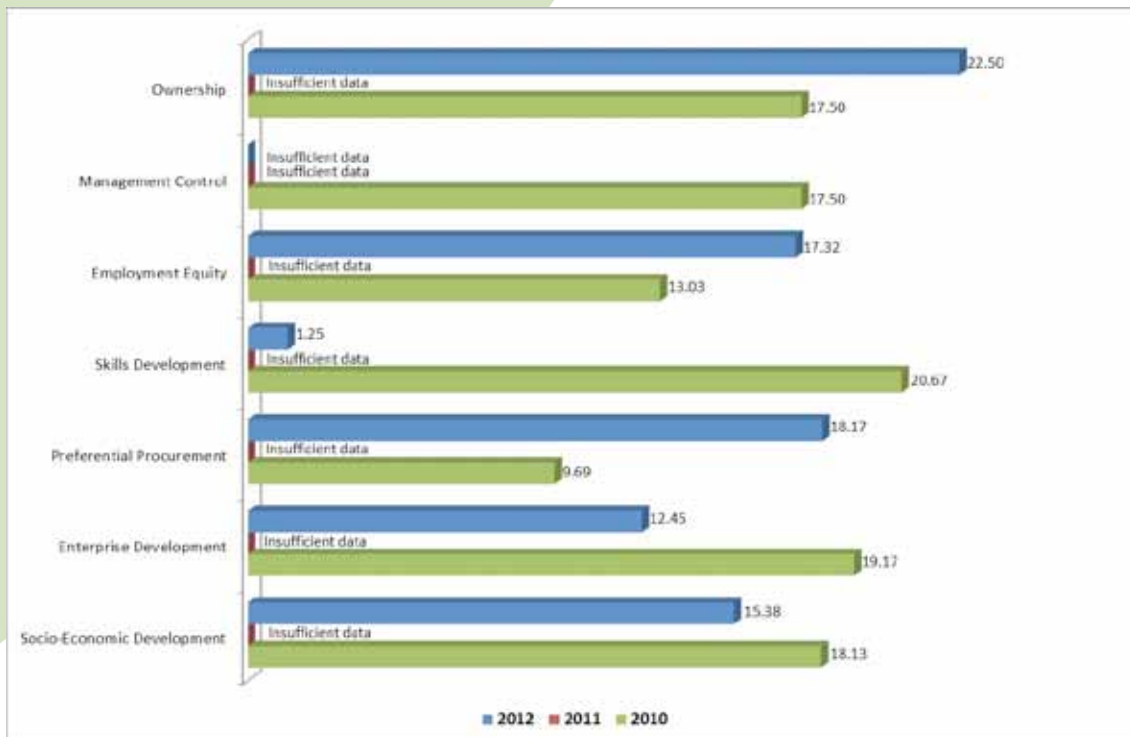
The sector has shown good improvement in preferential procurement, enterprise development and socio-economic development. Slight decreases in scores are evident in ownership and skills development.

## Sawmills (QSE)

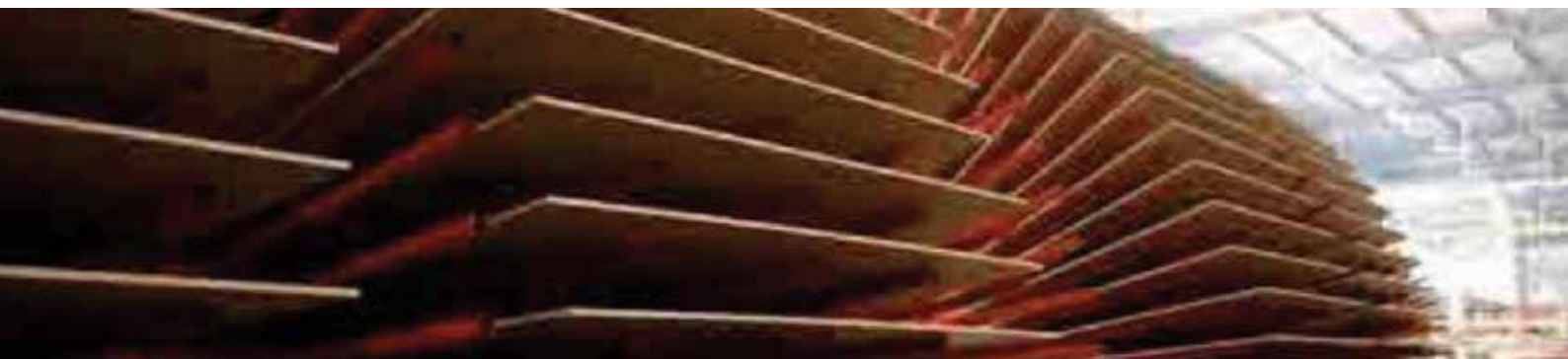
This sector is characterised by a very fragmented structure and year-on-year comparisons are problematic due to large variations in the sample. However, the score of 67 in 2012 shows an improvement over 2010, and a Level 4 performance was achieved as shown in Table 5 and graph below.

**Table 5- B-BBEE scores for Qualifying Small Sawmills**

Year	Total B-BBEE Score	B-BBEE Level
2012	67.43	4
2011	-	-
2010	61.64	5



Poor performance was seen in the skills development and management control elements



## Mining Timber

The sub-sector is dominated by two main players accounting for more than 90% of mining timber output. These are:

**Reatile Timrite:** They have six mills in the northern Mpumalanga and Tzaneen area, and account for an estimated 40% of mining timber production.

**Bedrock MS:** Bedrock Mining Systems was recently formed through a merger of Shanyala and SMT (Sappi Mining Timbers). The Shanyala Group operates mostly in the Piet Retief/Paul Pietersburg area and has five mining timber mills. SMT is active mainly in the Nelspruit, Barberton and

Graskop area where it operates three mining timber mills. The group's market share is estimated at 50%.

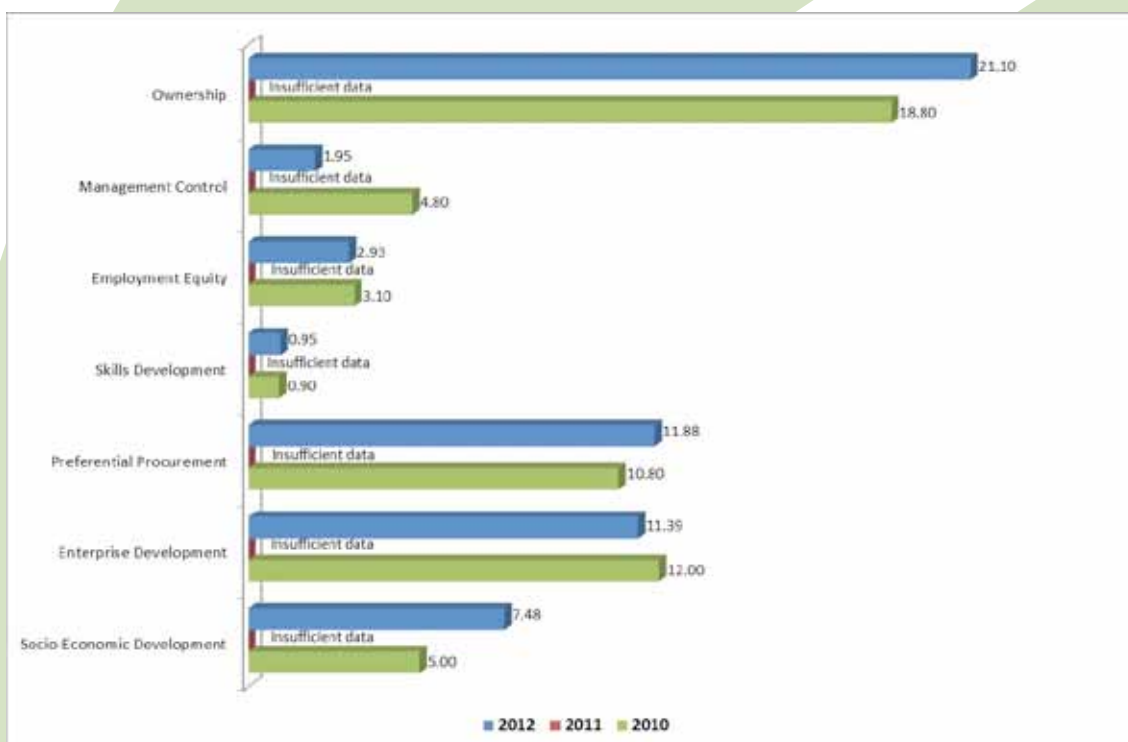
The balance (10%) is produced by small independent mills and TWK which owns sawmills near Piet Retief and in Swaziland. Scorecard information has been obtained from both major enterprises in the sub-sector, resulting in 90% coverage.

Data for 2012 reflects total coverage of the mining timber sector with data for both large enterprises included. Comparisons with previous years are therefore not directly possible due to an expansion of the sample constituents.

A total B-BBEE score of 58 (note point above) was achieved which has resulted in maintaining Level 5 even the for year. Details are shown in the Table 6 and graph below.

**Table 6 – B-BBEE scores for Mining Timber**

Year	Total B-BBEE Score	B-BBEE Level
2012	57.67	5
2011	-	-
2010	55.40	5



In 2012, good progress has been made with ownership, preferential procurement as well as enterprise development. Management control and employment equity require further attention.

## Poles

This sub-sector consumes an estimated 680 000 m<sup>3</sup> of roundwood per annum, split about 50:50 between Gum and Pine. Of the total intake about 65% is treated whilst the balance is used mainly by the informal sector in untreated form for building and fencing purposes. Treated poles are produced according to SABS specifications as electricity transmission poles, telephone poles and building and fencing poles. About 65% of poles find application in the building sector.

We estimate that there are approximately 120 pole manufacturing establishments in South Africa. Of this about 80% are small (informal) enterprises, probably with an annual turnover of less than R5 million and accounting for about 25% of production. These are all exempted micro-enterprises. The 40 medium to larger enterprises/groups account for the balance (75%) of output. Larger enterprises/groups include:

- Woodline Timber Industries (part of PG Bison)
- Treated Timber Products
- Tzaneng Treated Timbers
- G-Worx Forest Products
- Vhuka Comondale Treated Timbers
- Harding Treated Timbers
- Vuka Khulani Timber Industries
- Lows Creek Treated Timbers
- Natal Forest Products
- Shefeera Timbers
- Flaxton Timbers.

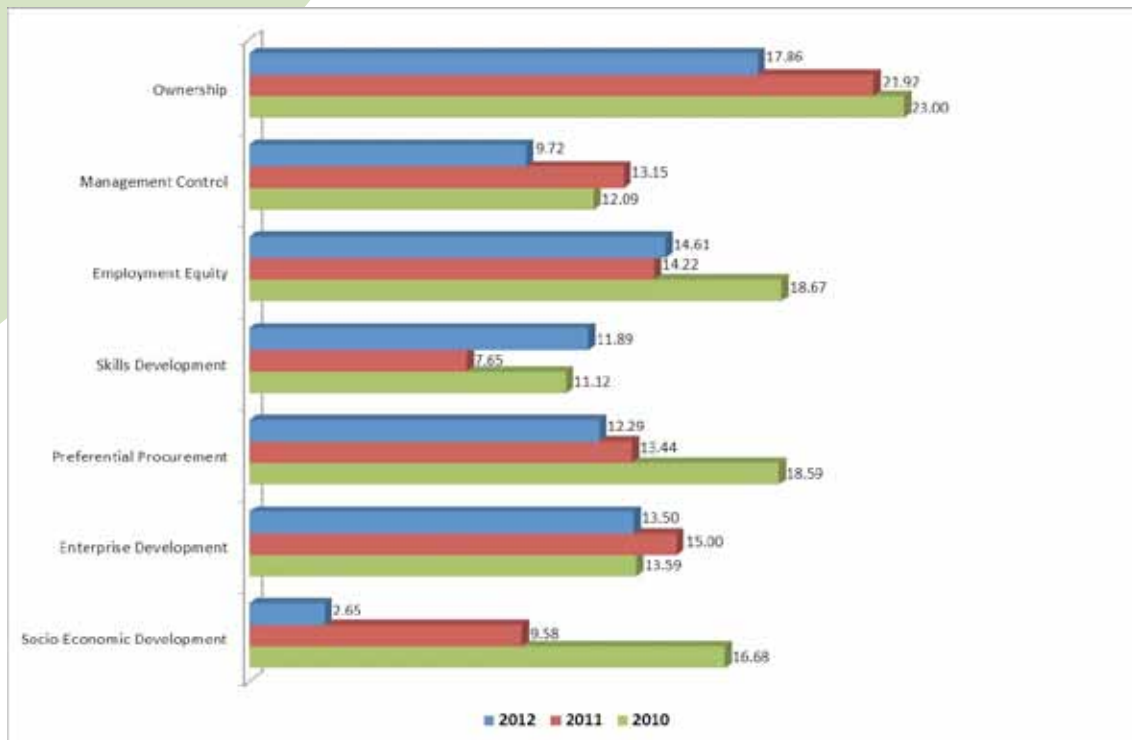
Scorecard information has been received from a limited number of enterprises, accounting for an estimated 20% of pole manufacturing activity.

The sub-sector has achieved a total B-BBEE score of 73, slightly down from 77 in the year before. This has resulted in a decline to Level 4 from Level 3. Details are shown in the Table 7 and graph below. As a result of the large

number of enterprises in this sub-sector, comparison on a constant sample basis remains problematic. The data, however, remains remarkably consistent despite variations in the sample constituents. It should be noted that the total score for pole treating enterprises is not equal to the sum of all element scores as only four element scores count in the case of QSEs.

**Table 7 – B-BBEE scores for Pole Treaters**

Year	Total B-BBEE Score	B-BBEE Level
2012	73.03	4
2011	76.91	3
2010	73.42	4



As noted above, with variations in the sample, variations in the scores on each of the elements are also evident.



## Pulp Mills

South African pulp mills consume an estimated 9.5 million m<sup>3</sup> of roundwood to produce pulp for paper and board manufacture and dissolving pulp. In addition to the roundwood intake an estimated 400 000 tons of chips is used annually.

The pulping mills using virgin wood fibre include:

- Sappi
  - ◇ Enstra
  - ◇ Ngodwana
  - ◇ Mandini
  - ◇ Saiccor
- Mondi
  - ◇ Richards Bay
  - ◇ Merebank
  - ◇ Piet Retief

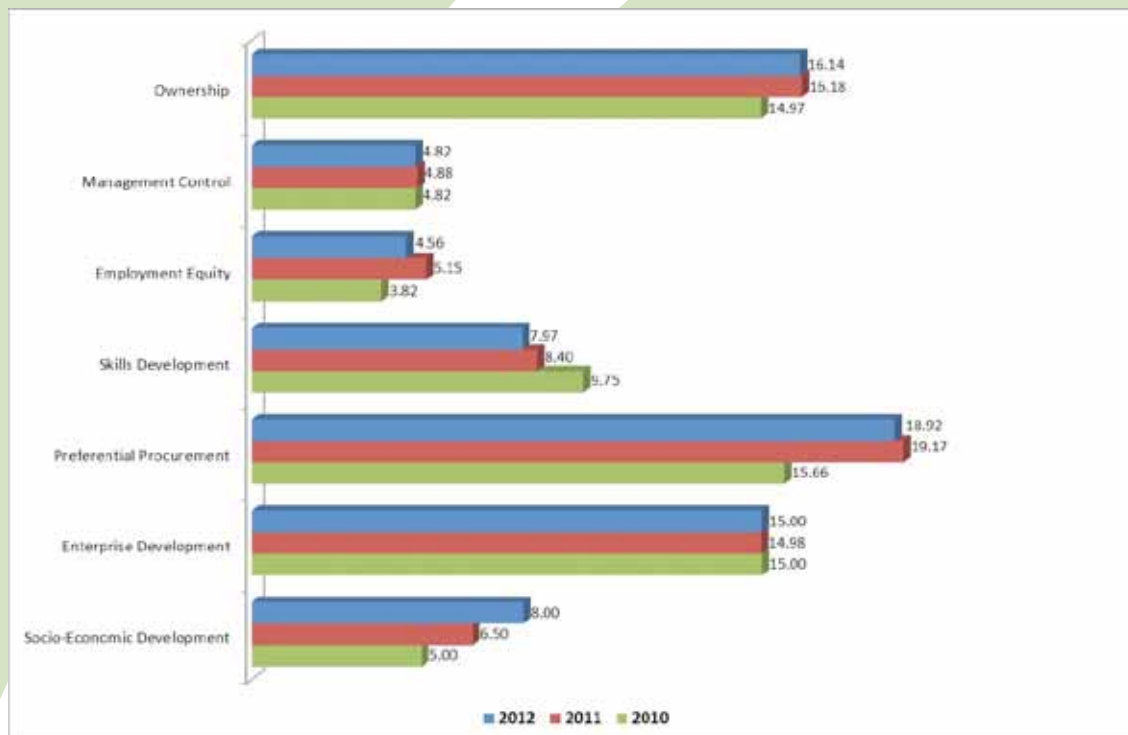
The pulp and paper industry is a significant exporter. On a value basis exports account for about 35% of production. Scorecard information has been received from both Sappi and Mondi, resulting in full coverage of this sub-sector. This sub-sector shows good performance in most scores, with the exception of skills development. Improvement has

been achieved in socio-economic development.

An average B-BBEE score of 75 was achieved, similar to the year before. This has resulted in maintaining Level 3. Details are shown in the Table 8 and graph below.

**Table 8 – B-BBEE scores for Pulp and paper**

Year	Total B-BBEE Score	B-BBEE Level
2012	75.39	3
2011	75.24	3
2010	69.02	4



## Board Products

The producers of wood based board products are PG Bison, producing MDF and chip board, Sonae Novobord (MDF and chip board) and Masonite (fibre board). The estimated market shares of producers are:

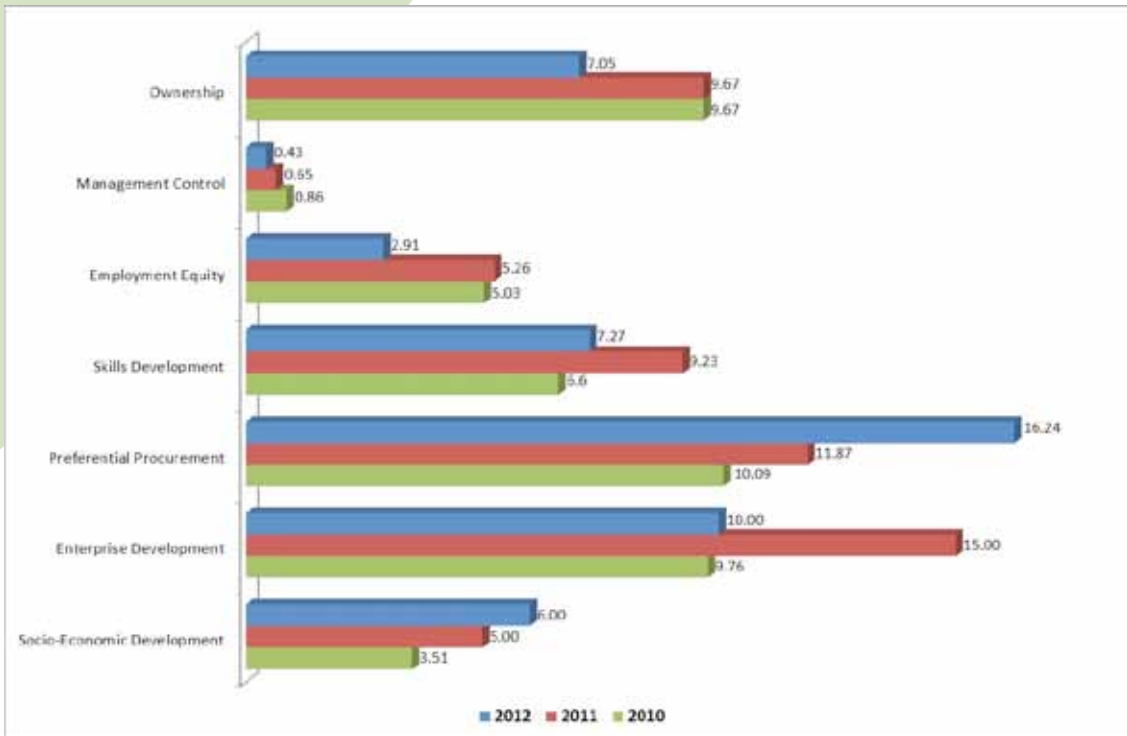
- Sonae Novobord 32%
- PG Bison 50%
- Masonite 14%
- Other 4%
- TOTAL 100%

Data for 2012 reflects total coverage of the board products sector as PG Bison, Masonite and Sonae Novobord submitted their scorecards. Comparisons with previous years are therefore not directly possible due to an expansion of the sample constituents.

An average B-BBEE score of 50 was achieved, down from 57 in the year before (note point above). This has resulted in a decline to Level 6 for the sub-sector. Details are shown in the Table 9 and graph below.

**Table 9 – B-BBEE scores for Board products**

Year	Total B-BBEE Score	B-BBEE Level
2012	49.89	6
2011	56.67	5
2010	45.52	6



Noting sample differences, considerable improvement has been achieved in preferential procurement and socio-economic development. In all other elements, declines are evident.

## Chipping Plants

Chipping plants, located in Richards Bay and Durban, export Gum and black wattle wood chips to Japanese pulp and paper mills. The operators in this market and their estimated market shares are indicated below.

Parent Company	Plant	Market Share (%)	Location
NCT	<ul style="list-style-type: none"> <li>• Bay Fibre</li> <li>• Shincell</li> <li>• NCT Durban Wood Chips</li> </ul>	40	Richards Bay Richards Bay Durban
TWK	CTC	23	Richards Bay
Mondi	Silvacell	37	Richards Bay
<b>TOTAL</b>	-	100	-

The industry reached its peak roundwood intake in the middle 2000s and operated very close to full capacity at an annual intake level in excess of 6.2 million m<sup>3</sup>. This intake has subsequently dropped below 4 million m<sup>3</sup> mainly as a result of non-availability of timber in the local market and declining market demand by overseas pulp mills. Investigations are constantly underway to convert some of the chip exports to local pulp production. Scorecard in-

formation has been received only from Mondi, resulting in a reduced coverage of the sub-sector, relative to the previous year.

Data for 2012 reflects limited coverage, with results only available from one enterprise. No data from the first benchmark study was available, but in 2011 the sub-sector achieved an overall B-BBEE score of 41 equating to Level 7 as shown in Table 10 below.

**Table 10 - B-BBEE scores for Chipping plants**

Year	Total B-BBEE Score	B-BBEE Level
2012	-	-
2011	40.88	7
2010	-	-

## Charcoal

About 50% of charcoal is consumed by ferrous industries where natural charcoal is used as a reducing agent. Major companies include Silicon Smelters, Rand Carbide and Siltech. They obtain charcoal from a vast network of small independent producers (about 50% of intake) and the balance from formal charcoal producers. The household market accounts for 50% of total demand and is mainly supplied by formal charcoal producers. The major producers include:

- Charka Suiderland – Piet Retief
- Braai and Barbeque International - Gauteng
- E&C Charcoal – Pietermaritzburg
- Freidheim Timbers – KZN

The vast majority of small informal producers have an annual turnover of less than R5 million and are thus classified as exempted micro-enterprises. No scorecard information was obtained from the formal charcoal producers.



## Summary of scores by Element

In this section, progress towards the target score on each element is measured. As an example where the target score for a particular element is 15, and the actual scorecard result is 12, progress towards the target score is given as 80%. The analysis indicates to what extent there is still room for transformation in respect of all seven measurement elements.

### Ownership

With regard to ownership, all large enterprises in the forestry sector have maintained progress towards the target score, with the exception of board producers (note again the sample variation in this sub-sector). See table 11 below.

**Table 11**

	Sub-Sector	Year	% of Target Score
Ownership	Large Forestry	2012	65%
		2011	66%
	Board Producers	2012	35%
		2011	48%
	Mining Timber	2012	>100%
		2011	-
	Pulp and Paper	2012	81%
		2011	81%
	Large Sawmills	2012	63%
		2011	67%

### Management Control

With regard to management control, all large enterprises in the forestry sector have shown similar performance on this element to the year before. See table 12 below.

**Table 12**

	Sub-Sector	Year	% of Target Score
Management Control	Large Forestry	2012	55%
		2011	52%
	Board Producers	2012	4%
		2011	6%
	Mining Timber	2012	19%
		2011	-
	Pulp and Paper	2012	48%
		2011	49%
	Large Sawmills	2012	39%
		2011	37%

## Employment Equity

Overall, large enterprises in the forestry sector are on average at 27% in terms of progress towards the target score on employment equity, which is lower than the 2011 average of 34% (this is largely a result of the inclusion of the board products sub-sector score). See table 13 below.

**Table 13**

	Sub-Sector	Year	% of Target Score
Employment Equity	Large Forestry	2012	33%
		2011	36%
	Board Producers	2012	19%
		2011	35%
	Mining Timber	2012	20%
		2011	-
	Pulp and Paper	2012	30%
		2011	34%
	Large Sawmills	2012	34%
		2011	30%

## Preferential Procurement

With regard to preferential procurement, most enterprises in the forestry sector have shown progress. Overall, large enterprises in the forestry sector are on average at 79% in terms of progress towards the target score on preferential procurement. See table 14 below.

**Table 14**

	Sub-Sector	Year	% of Target Score
Preferential Procurement	Large Forestry	2012	82%
		2011	82%
	Board Producers	2012	81%
		2011	59%
	Mining Timber	2012	59%
		2011	-
	Pulp and Paper	2012	95%
		2011	96%
	Large Sawmills	2012	76%
		2011	70%

## Enterprise Development

Large forestry and pulp and paper enterprises have maintained progress regarding enterprise development, except board producers (note previous points). Overall, large enterprises in the forestry sector are on average at 80% in terms of progress towards the target score. See table 15 below.

**Table 15**

	Sub-Sector	Year	% of Target Score
Enterprise Development	Large Forestry	2012	79%
		2011	77%
	Board Producers	2012	67%
		2011	100%
	Mining Timber	2012	76%
		2011	-
	Pulp and Paper	2012	100%
		2011	100%
	Large Sawmills	2012	79%
		2011	69%

## Socio-Economic Development

Overall, all large enterprises in this sector have either achieved or exceeded the target score with regard to socio-economic development. This would imply expenditure on socio-economic development plans in excess of the minimum percentage required relative to after-tax profit. See table 16 below.

**Table 16**

	Sub-Sector	Year	% of Target Score
Socio-Economic Development	Large Forestry	2012	>100%
		2011	>100%
	Board Producers	2012	>100%
		2011	100%
	Mining Timber	2012	>100%
		2011	-
	Pulp and Paper	2012	>100%
		2011	>100%
	Large Sawmills	2012	>100%
		2011	>100%

## SUMMARY OF STATUS OF TRANSFORMATION

The scorecard results (overall scores and contribution level) for all of the sub-sectors covered in this research are summarised in the table 17 below for the three financial years. In total, the sector as a whole is at Level 4 in 2012, similar to the previous year. The result has been calculated using the sub-sector weightings as described in Section 2.1 of this report. For EMEs, Level 4 has been assumed to calculate the overall result. See table 17 below.

**Table 17**

Sector	2012		2011		2010	
	B-BBEE Score	B-BBEE Level	B-BBEE Score	B-BBEE Level	B-BBEE Score	B-BBEE Level
Large Forestry	69.02	4	69.96	4	56.75	5
Contractors (QSE)	79.37	3	76.89	3	82.41	3
Large Sawmills	62.18	5	59.82	5	54.09	3
Sawmills (QSE)	67.43	4	-	-	61.64	3
Mining Timber	57.67	5	-	-	55.40	3
Pole Treaters	73.03	4	76.91	3	73.42	3
Pulp and Paper	75.39	3	75.24	3	69.02	3
Board Producers	49.89	5	56.67	5	45.52	3
Chipping Plants	-	-	40.88	7	-	-
TOTAL SECTOR		4		4		5

Other data that is presented on B-BBEE scorecards relates to ownership, and data for black ownership and black female ownership for each of the sub-sectors is presented in the table 18 below. No supplementary information with regard to changes in the results over the analysis period is available and this would need deeper interrogation at enterprise level. See table 18 below.

**Table 18**

Sector	Black Ownership		Black Female Ownership	
	2012	2011	2012	2011
Forestry	21.7%	23.6%	3.9%	4.0%
Board Producers	11.7%	14.2%	2.3%	2.8%
Mining Timber	41.9%	-	12.4%	-
Pulp and Paper	20.6%	20.3%	3.8%	1.8%
Large Sawmills	19.8%	20.4%	4.4%	5.2%

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## Annual Financial Statements

**T**he reports and statements set out on pages 41-48 comprise the annual financial statements presented to the Council:

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## Councillors' Responsibilities and Approval

The councillors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual 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 International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The councillors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the councillors to meet these responsibilities, the council sets 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. 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 pre-determined procedures and constraints.

The councillors 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The councillors have reviewed the company's cash flow forecast for the year to 31 March 2013 and, in the light of this review and the current financial position, they are satisfied that the company has or 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 41.

The annual financial statements set out on pages 40 to 48, which have been prepared on the going concern basis, were approved by the council on 06 November 2012 and were signed on its behalf by:



Pasco Dyani (Chairperson - Forest Sector Charter Council)



Themba Siyolo (Chairperson - Finance Committee and Human Resources Committee)

## Independent Auditors' Report

### To the members of FOREST SECTOR CHARTER COUNCIL (ASSOCIATION INCORPORATED UNDER SECTION 21)

We have audited the annual financial statements of FOREST SECTOR CHARTER COUNCIL (ASSOCIATION INCORPORATED UNDER SECTION 21), which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the councillors' report, as set out on pages 5 to 13.

### Councillors' Responsibility for the Annual Financial Statements

The company's councillors are responsible for the preparation and fair presentation of these annual financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and requirements of the Companies Act 71 of 2008, and for such internal control as the councillors determine is necessary to enable the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. 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

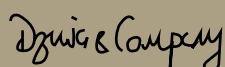
obtain reasonable assurance whether the annual financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of FOREST SECTOR CHARTER COUNCIL (ASSOCIATION INCORPORATED UNDER SECTION 21) as at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Companies Act 71 of 2008.



SK Dziwa, RA(SA)  
Registered Auditor

06 November 2012

Director: SK. DZIWA CA(SA)

# Councillors' Report

## The councillors submit their report for the year ended 31 March 2012.

### 1. Review of activities

#### Main business and operations

The main objective of the Forest Sector Charter Council is to promote Broad-Based Black Economic Empowerment (B-BBEE) in forestry industry. It seeks to achieve this by undertaking the following:

- (a) Promoting investment programmes that lead to sustainable B-BBEE driven growth and development of the Forest Sector and meaningful participation of black people in the entire forestry value chain.
- (b) Achieving sustainable change in the racial and gender composition of ownership, management and control structures and in skilled positions of existing and new forest enterprises.
- (c) Increasing the extent to which black women and men, workers, cooperatives and other collective enterprises own and manage existing and new forest enterprises and increasing access to economic activities, infrastructure and skills training.
- (d) Nurturing new black-owned and/or black-managed en-

terprises to undertake new forms of economic and value adding activities in the Forest Sector.

(e) Using the forest industry as a catalyst for empowering rural and local black communities to access economic activities, land, infrastructure, ownership and skills.

(f) Promoting sustainable employment and contracting practices in the Forest Sector. The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

### 2. Events after the reporting period

The councillors are not aware of any matter or circumstance arising since the accounting date of the financial statements to the date of issue of the financial statements that in their opinion would warrant a material adjustment to the financial statements as presented.

### 3. Councillors

The councillors of the Council during the year and to the date of this report are as follows:

Name	Nationality	Changes
Stephen Bila	South African	Appointed 7 February 2008
Bruce Breedt	South African	Appointed 18 June 2010
Simangele Cele	South African	Appointed 7 February 2008
Sebueng Chipeta	South African	Appointed 1 February 2012
Queen Filani	South African	Resigned 31 January 2012
Sibusiso Gumede	South African	Appointed 7 February 2008
Dr Diphoko Mahango	South African	Appointed 05 May 2011
Viv McMnamin	South African	Appointed 7 February 2008
Simangaliso Mkhawanazi	South African	Appointed 7 February 2008
Dinga Mncube	South African	Appointed 7 February 2008
Mary-Anne Mngomezulu	South African	Appointed 7 February 2008
Pasco Dyani (Chairperson - Forest Sector Charter Council)	South African	Appointed 19 August 2010
Jane Molony	South African	Appointed 7 February 2008
Ben Nkambule	South African	Appointed 7 February 2008
Watson Nxumalo	South African	Appointed 7 February 2008
Dr Moshibudi Rampedi	South African	Appointed 7 February 2008
Themba Siyolo (Chairperson - Finance Committee and Human Resources Committee)	South African	Appointed 7 February 2008
Roy Southey	South African	Appointed 1 November 2011
Dr Jaap Steenkamp	South African	Appointed 7 February 2008
Lulamile Xate	South African	Appointed 1 November 2011
Jacob Maphutha	South African	Appointed 15 November 2011
Sakhiwo Zako	South African	Appointed 7 February 2008

### 4. Auditors

Dziwa & Company will continue in office in accordance with section 90 of the Companies Act 71 of 2008.

## Statement of Financial Position

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

Figures in Rand	Note(s)	2012	2011
Non-Current Assets Property, plant and equipment	2	8 066	10 899
Current Assets Trade and other receivables	3	84 620	212 067
Cash and cash equivalents	4	2 738 461 2 823 081	333 329 545 396
<b>Total Assets</b>		<b>2 831 147</b>	<b>556 295</b>
Equity and Liabilities Equity			
Retained income		2 539 986	(26 330)
Liabilities			
Current Liabilities Trade and other payables	5	291 161	582 625
<b>Total Equity and Liabilities</b>		<b>2 831 147</b>	<b>556 295</b>

## Statement of Comprehensive Income year ended 31 March 2012

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

Figures in Rand	Note(s)	2012	2011
<b>Revenue</b>	6	<b>5,420,351</b>	<b>3,168,996</b>
<b>Operation expenses</b>		(2 828 186)	(3 560 670)
<b>Operating profit (loss)</b>		<b>2,592,165</b>	<b>(391,674)</b>
Finance costs	7	(25,849)	-
<b>Profit (loss) for the year</b>		<b>2,566,316</b>	<b>(391,674)</b>
Other comprehensive income		-	-
<b>Total comprehensive income (loss) for the year</b>		<b>2,566,316</b>	<b>(391,674)</b>

## Statement of Changes in Equity

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

Figures in Rand	Retained income	Total equity
Balance at 01 April 2010	365 344	365 344
Loss for the year	(391 674)	(391 674)
Other comprehensive income	-	-
Total comprehensive loss for the year	(391 674)	(391 674)
Balance at 01 April 2011	(26 330)	(26 330)
Profit for the year	2 566 316	2 566 316
Other comprehensive income	-	-
Total comprehensive income for the year	2 566 316	2 566 316
Balance at 31 March 2012	2 539 986	2 539 986

## Statement Of Cash Flows

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Cash generated from (used in) operations	9	2 430 981	(161 030)
Finance costs		(25 849)	-
Net cash from operating activities		2 405 132	(161 030)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	-	(12 580)
Total cash movement for the year		2 405 132	(173 610)
Cash at the beginning of the year		333 329	506 939
Total cash at end of the year	4	2 738 461	333 329

# Accounting Policies

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

## 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

### 1.1 Property, plant and equipment

Property, plant and equipment are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and
- are expected to be used during more than one period.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment, which is as follows:

Item	Average useful life
Office equipment	6 years
Computer software	6 years

The residual value, depreciation method and the useful life of each asset are reviewed at each annual reporting period if there are indicators present that there is a change from the previous estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss in the period.

### 1.2 Financial instruments

#### Financial instruments at amortised cost

Financial instruments may be designated to be measured at amortised cost less any impairment using the effective interest method. These include trade and other receivables, loans and trade and other payables. At the end of each reporting period date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised.

### 1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable or received and represents contributions receivable from the Forestry Industry and the Department of Agriculture, Forestry and Fisheries..

Interest is recognised, in profit or loss, using the effective interest rate method.



# Notes to the Annual Financial Statements

## 2 Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	12 580	(4 514)	8 066	12 580	(1 681)	10 899
Computer software	1 999	(1 999)	-	1 999	(1 999)	-
<b>Total</b>	<b>14 579</b>	<b>(6 513)</b>	<b>8 066</b>	<b>14 579</b>	<b>(3 680)</b>	<b>10 899</b>

Reconciliation of property, plant and equipment - 2012

	Opening balance	Depreciation	Total
Office equipment	10,899	(2.833)	8.066

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

## 3 Trade and other receivables

Grant income receivable from members of the Forestry Industry	84 620	206 592
Staff loans	-	5 475
	<b>84 620</b>	<b>212 067</b>

## 4 Cash and cash equivalents

Cash and cash equivalents consist of:		
Bank balances	2 738 461	333 329

## 5 Trade and other payables

Trade payables	153 927	220 130
Reimbursable expenses due to Councillors	70 468	142 659
Accrued leave pay	-	219 836
Payroll related accruals	66 766	-
	<b>291 161</b>	<b>582 625</b>

## 6 Revenue

	2012	2011
Government contribution - Department of Agriculture, Forestry and Fisheries	4 070 833	1 790 688
Industry contribution - Members of the Forest Sector	1 349 518	1 328 308
Donations received - Forest Industries Education and Training Authority (FIETA)	-	50 000
	<b>5 420 351</b>	<b>3 168 996</b>

## 7 Finance costs

	2012	2011
On accounts payables	25 849	-



# Notes to the Annual Financial Statements

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2012

## 8 Auditors' remuneration

	2012	2011
Fees	60 080	58 703

## 9 Cash generated from (used in) operations

	2012	2011
Profit (loss) before taxation	2 566 316	(391 674)
Adjustments for:		
Depreciation and amortisation	2 833	3 013
Finance costs	25 849	-
Other non-cash items	-	(1)
Changes in working capital:		
Trade and other receivables	127 447	(63 111)
Trade and other payables	(291 464)	290 743
	2 430 981	(161 030)

## 10 Councillors' remuneration 2012

	Remuneration received as Council executive	Travel and accommodation costs	Remuneration received as Councillor	Subsistence and travel claims	Total
Stephen Bila	-	-	26 400	16 587	42 987
Simangele Cele	-	1 365	-	-	1 365
Sibusiso Gumede	-	-	39 113	7 882	46 995
Dr Diphoko Mahango	-	17 107	7 200	13 307	37 614
Mary-Anne Mngomezulu	-	30 856	40 800	13 299	84 955
Pasco Dyani (Chairperson - Forest Sector Charter Council)	450 000	108 312	109 438	1 222	668 972
Ben Nkambule	-	11 788	-	-	11 788
Watson Nxumalo	-	10 675	-	-	10 675
Sakhiwo Zako	-	8 521	7 200	7 416	23 137
	450 000	188 624	230 151	59 713	928 488

## 11. Events after the reporting period

There is no material fact or circumstance that has arisen since the accounting date of the financial statements to the date of issue of the financial statements that would warrant a material adjustment to the financial statements as presented.



# ACRONYMS

BEE	Black Economic Empowerment	Ha	Hectares
B-BBEE	Broad Based Black Economic Empowerment	HDI	Historically Disadvantaged Individuals
DRDLR	Department of Rural Development & Land Reform	IFSA	International Forestry Students Association
DAFF	Department of Agriculture, Forestry & Fisheries	IPAP	Industrial Policy Action Plan
DBSA	Development Bank of Southern Africa	KZN	KwaZulu- Natal
DEXCO	Departmental Executive Committee	KLF	Komatiland Forests
DWA	Department of Water Affairs	NEF	National Empowerment Fund
EC	Eastern Cape	NDA	National Development Agency
EIA	Environmental Impact Assessment	NWA	National Water Act
FED	Forest Enterprise Development	PGDS	Provincial Growth and Development Strategies
FIETA	Forest Industries Education and Training Authority	PSP	Professional Service Provider
FFMC	Forest Functional Management Committee	SAFCOL	South African Forestry Company Ltd
FP&M	Fibre Processing and Manufacturing Seta	SEDA	Small Enterprise Development Agency
FPA	Fire Protection Association	SFA	Saasveld Forestry Association
FSA	Forestry South Africa	SFRA	Stream Flow Reduction Activity
FSC	Forest Stewardship Council	SMME	Small, Medium and Micro Enterprises
FSCC	Forest Sector Charter Council	WUL	Water Use Licenses
		WfE	Working for Energy
		WoF	Working on Fire

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# FOREST SECTOR CHARTER COUNCIL



agriculture,  
forestry & fisheries

Department:  
Agriculture, Forestry and Fisheries  
REPUBLIC OF SOUTH AFRICA

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