



**COMPANION TO THE DRAFT FOREST SECTOR  
TRANSFORMATION CHARTER**

**FIRST DRAFT FOR PRESENTATION TO  
STAKEHOLDERS**

**MAY 2007**

**Prepared by the  
Charter Steering Committee**

**Launched for public comment at the  
Forest Sector BBEEE Indaba held on  
25 June 2007**



**water & forestry**

Department:  
Water Affairs and Forestry  
**REPUBLIC OF SOUTH AFRICA**



# Table of Contents

## Acronyms 2

<b>1</b>	<b>Chronology of the Development of the Forest Sector Transformation Charter</b>	<b>3</b>
<b>2</b>	<b>Profile of the Forest Sector</b>	<b>6</b>
<b>3</b>	<b>Current State of Empowerment in the Sector</b>	<b>9</b>
3.1	Equity Ownership	9
3.2	Management Control and Employment Equity	10
3.3	Other Key Elements	10
3.4	Conclusions	11
<b>4</b>	<b>Sector Challenges</b>	<b>12</b>
4.1	Increase roundwood supply	12
4.2	Sustainable supply and better utilisation of sawlogs	13
4.3	Local beneficiation in and through the fibre production sub-sector	13
4.4	Equity in the forestry value chain	13
4.5	Empowerment and sustainability of small forest sector enterprises	14
4.6	Linking forestry with poverty alleviation and local economic development	15
<b>5</b>	<b>Details on Undertakings in the Charter</b>	<b>16</b>
5.1	Streamline and expedite afforestation licensing procedures	16
5.2	Sawlog growing strategy and programme for South Africa	17
5.3	Forest protection services	18
5.4	Charter Council	19
<b>6</b>	<b>Explanatory notes to the Charter</b>	<b>22</b>
6.1	Calculation of overall Ownership Profile for the Sector	22
6.2	Comparison between Scorecard for the Forest Sector and the Generic Scorecard	23
6.3	Further details on Skills Development Strategy/Plan	25
6.4	Further details on Industry Codes of Conduct on Contracting and Employment	27
6.5	Motivation to fund and/or subsidise the interest burden to develop emerging forestry enterprises	33
6.6	Motivation for seed funding to develop fire insurance schemes for emerging forestry enterprises	36
<b>7</b>	<b>Financial requirements for Forest Sector Transformation</b>	<b>36</b>
7.1	Industry Costs	36
7.2	Government Costs	40
<b>8</b>	<b>Key Outcomes of the Forest Sector Transformation Process</b>	<b>44</b>
<b>9</b>	<b>Charter Implementation Plan</b>	<b>45</b>

## Appendix: Forestry Funding models

# Acronyms

<b>ABET</b>	Adult Basic Education and Training
<b>ASGI-SA</b>	Accelerated and Shared Growth Initiative for South Africa
<b>B-BBEE</b>	Broad-based Black Economic Empowerment
<b>BEE</b>	Broad-based Black Economic Empowerment
<b>CEPPWAWU</b>	Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union
<b>CRLR</b>	Commission on Restitution of Land Rights
<b>DEAT</b>	Department of Environmental Affairs and Tourism
<b>DoA</b>	Department of Agriculture
<b>DLA</b>	Department of Land Affairs
<b>DoL</b>	Department of Labour
<b>DPLG</b>	Department of Provincial and Local Government
<b>DoT</b>	Department of Transport
<b>DTI</b>	Department of Trade and Industry
<b>DWAF</b>	Department of Water Affairs and Forestry
<b>EAP</b>	Economically Active Population
<b>ESMEs</b>	Exempted Micro-Enterprises
<b>FAWU</b>	Food and Allied Workers' Union
<b>FIETA</b>	Forest Industry Education and Training Authority
<b>GDP</b>	Gross Domestic Product
<b>IDC</b>	Industrial Development Corporation
<b>ITAC</b>	International Trade Administration Commission
<b>MOU</b>	Memorandum of Understanding
<b>NSF</b>	National Skills Fund
<b>NPAT</b>	Net Profit after Tax
<b>NSF</b>	National Skills Fund
<b>SALGA</b>	South African Local Government Association
<b>OSHA</b>	Occupational Safety and Health Act
<b>PGDS</b>	Provincial Growth and Development Strategy
<b>QSE's</b>	Qualifying Small Enterprises
<b>SAFCOL</b>	South African Forestry Company Ltd
<b>SALGA</b>	South African Local Government Association
<b>SANAS</b>	South African National Accreditation System
<b>SAQA</b>	South African Qualification Authority
<b>SETA</b>	Sector Education and Training Authority
<b>SFRA</b>	Stream Flow Reduction Activity
<b>SGB</b>	Standards Generating Body
<b>QSE</b>	Qualifying Small Enterprise
<b>WfW</b>	Working for Water

# 1. Chronology of the Development of the Forest Sector Transformation Charter

<b>Launch</b>	<b>18 April 2005</b>
<p>Charter officially launched by the Minister of Water Affairs and Forestry at an indaba held in Midrand. Stakeholders present agreement to develop a B-BBEE Charter, and establish a Charter Steering Committee assisted by Working Groups to drive the process. The Minister accepts nominations and appoints the Steering Committee.</p>	
<b>Working Groups 1<sup>st</sup> Tasks</b>	<b>June/November 2005</b>
<p>Four sub-sector Working Groups established: Growers, Forestry Contractors, Sawmillers, Charcoal and Treated Pole Producers, and a group to examine the Sector delineation. Working Group tasks were to:</p> <ul style="list-style-type: none"> <li>• Develop a Charter vision for each sub-sector;</li> <li>• Identify key principles to guide the Charter;</li> <li>• Determine the current status of empowerment in each sub-sector; and</li> <li>• Determine the challenges facing each sub-sector and recommend solutions to these challenges.</li> </ul>	
<b>Regional Public Consultation</b>	<b>September 2005</b>
<p>The findings of the Working Groups presented at regional public consultation meetings in East London, Durban and Nelspruit. Inputs received from stakeholders used by the Working Groups to update their submissions.</p>	
<b>Draft Charter – Preliminary Sections</b>	
<p>Working Group submissions form the basis for the drafting of the preliminary sections of the draft Charter, with the Steering Committee playing an oversight role.</p>	
<b>Working Groups 2<sup>nd</sup> Tasks</b>	<b>October/November 2005</b>
<p>A 5<sup>th</sup> Working Group, the Fibre Working Group, established. The Steering Committee develops guidelines for development of Scorecards by each sub-sector Working Group. Working Group tasks include:</p> <ul style="list-style-type: none"> <li>• Developing Scorecards for each sub-sector; and</li> <li>• Identifying instruments required for achieving Scorecard targets.</li> </ul>	
<b>Regional Public Consultation – 2<sup>nd</sup> Round</b>	<b>November/December 2005</b>
<p>A second round of regional public consultation meetings held to review the draft Scorecards and instruments. Inputs received used to update the Working Group submissions, which are then used as a basis for compiling the remaining sections of the Draft Transformation Charter.</p>	
<b>First Conveners Retreat</b>	<b>January 2006</b>
<p>Conveners of the Steering Committee and Working Groups meet to cross-check sub-sector Scorecards and develop TOR for task teams to examine cross-cutting instruments to support the achievement of Scorecard targets.</p>	
<b>DWAF/DLA Workshop</b>	<b>January 2006</b>

Workshop with DLA held to reach agreement on how to fast-track land reform issues in forestry areas. An action plan developed, and agreement reached on modalities for DWAF/DLA co-operation.	
<b>Implementation Task Teams</b>	<b>February 2006</b>
Implementation Task Teams develop financial and non-financial instruments to support the achievement of the Scorecard targets, taking into account existing Government frameworks (B-BBEE Codes of Good Practice, skills development frameworks, land reform etc).	
<b>Refining Sub-sector Submissions</b>	<b>March 2006</b>
Working groups refine Scorecards and instruments, based on the inputs received and the DTI Codes of Good Practice for B-BBEE. Further regional consultations held targeting the two sub-sectors: Sawmillers, and Charcoal and Pole Producers.	
<b>3<sup>rd</sup> Round of Regional Consultations</b>	<b>March 2006</b>
Another round of regional consultations targeting the two sub-sectors: Sawmillers, and Charcoal and Pole Producers, held in four provinces in March to elicit greater participation in the Charter process by these sub-sectors.	
<b>2<sup>nd</sup> and 3<sup>rd</sup> Draft Transformation Charter</b>	<b>April 2006</b>
Transformation Charter revised to produce a 2 <sup>nd</sup> and later a 3 <sup>rd</sup> draft, incorporating outputs from Working Groups and Implementation Task Teams. The document details government undertakings and comments received from the Steering Committee and other stakeholders. Key issues that require finalisation are identified. Sub-sector Working Groups and the Financial and Skills Development Implementation Task Teams are tasked to address these.	
<b>Second Conveners Retreat</b>	<b>May 2006</b>
Conveners of the Working Groups meet to integrate the submissions on outstanding issues from the Implementation Task Teams and Working Groups, and to review the consolidated Scorecard.	
<b>4<sup>th</sup> , 5<sup>th</sup> and 6<sup>th</sup> Draft Charter</b>	<b>May/July 2006</b>
The Charter further revised to incorporate a submission from organised labour (CEPPWAWU and FAWU), outputs from the sub-sector Working Groups, Task Teams and the convenors retreat. Submission to Steering Committee for further inputs and final approval.	
<b>Alignment with Final Codes of Good Practice</b>	
Cabinet approves final Codes of Good Practice in December 2006. Working Group meetings held in January 2007 to consider the impact of Codes and update the Scorecard and Charter document. Steering Committee meetings on 8 February and 7 March to finalise Charter.	
<b>Launched for Public Comment</b>	<b>June 2007</b>
The draft final Charter submitted to the Minister of Water Affairs and Forestry, who will launch the Charter as a draft document for public comments at a national stakeholder Indaba on 25 June 2007.	
<b>Finalisation of the Charter and Gazetting</b>	
Following comments received the draft Charter will be finalised by the Charter Steering Committee and analysed by an independent party as provided for under the Codes of Good Practice for the development and gazetting of Transformation Charters. The final Charter will be submitted to the Minister of Trade and Industry and Cabinet for approval, where after it will be gazetted.	

## 2 Profile of the Forest Sector

The Forest Sector makes a major contribution to the South African economy. The commercial plantation resource of some 1.33 million hectares forms the basis for a well-developed, highly integrated and diversified forest products industry in South Africa (Figure 1).

The fibre sub-sector is dominated by a small number of large, corporate enterprises that are involved in the capital-intensive pulp, paper and composite board industries. These industries are characterised by their backward linkages into plantation forestry, motivated by the need to secure reliable roundwood supply. These, together with a small number involved in saw milling, own 58.8% of the plantation forest resource. A larger number of medium and emerging enterprises is located in the sub-sectors of growers, forestry contractors, sawmilling, pole treatment, charcoal manufacturing and paper processing.

### *Contribution to GDP*

The contribution of the Sector to GDP for 2006 was about R14.0 billion. This equates to about 1% contribution to the total RSA GDP.

### Contribution to Foreign Trade

The forest products industry ranks amongst the top exporting industries in the country. On average over the past few years, sector exports amounted to R11.0 billion per annum, which, after deduction of imports of forest products of R4.0 billion gave a net foreign exchange earning to the country of R7.0 billion per annum. The Forest Sector contributed 15.6% of the country's trade balance.

### Contribution to Employment

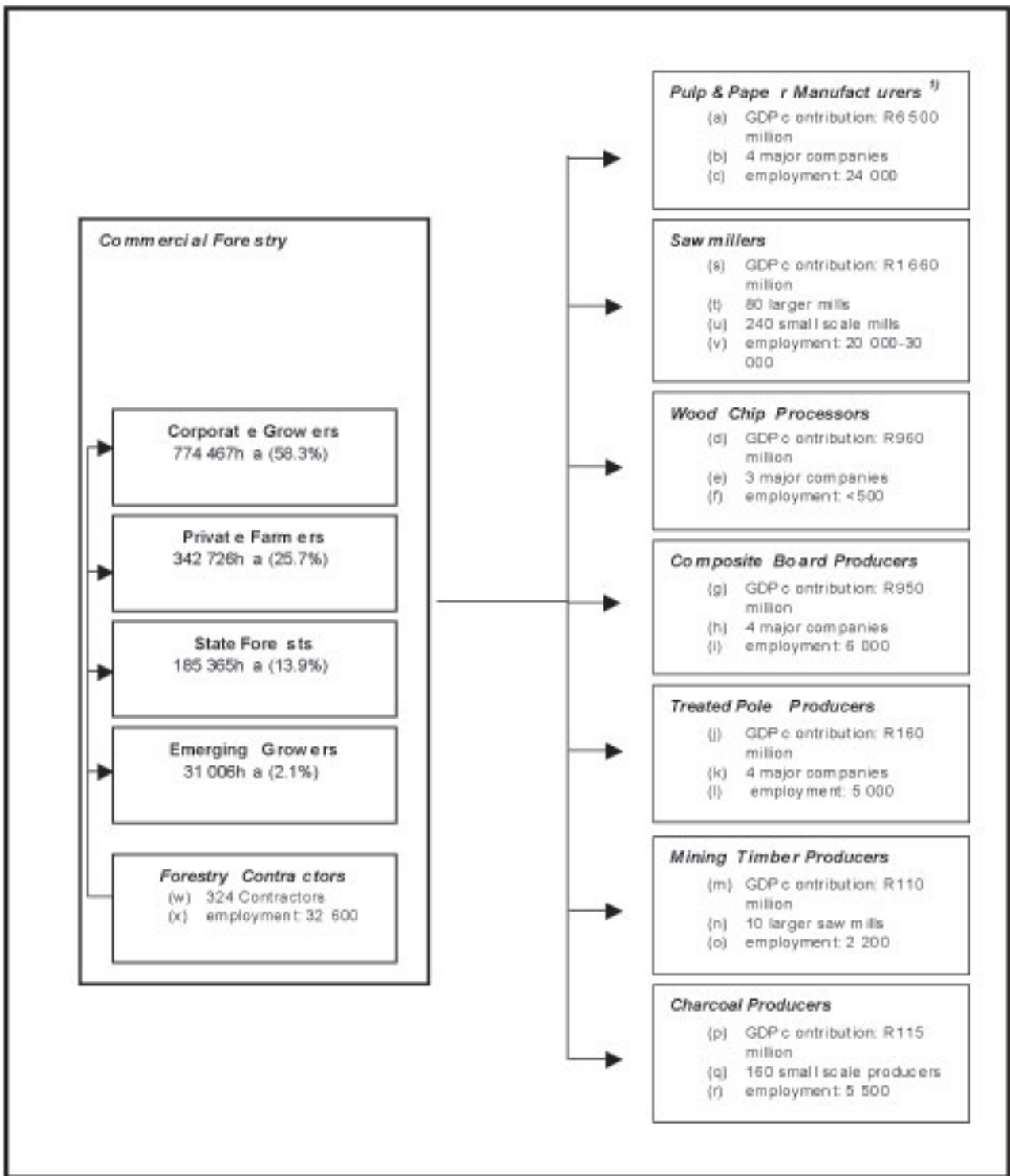
The Forest Sector generates employment for more than 170 000 workers, of which 63% are in commercial forestry, which includes the sub-sectors of growers and forestry contractors. Total remuneration amounted to R4.6 billion in 2006. Most of the jobs created are in rural and remote areas where unemployment is high and alternative employment opportunities scarce.

Including family dependants, an estimated 870 000 people rely on the Sector for their livelihood.

### Contribution to livelihood subsistence and informal trade

The majority of South Africa's rural poor make extensive use of forest products from woodlands and plantations for daily consumption and small-scale trade. Firewood, building poles, medicinal plants and edible fruits are critical to livelihoods of the poor and provide a safety net to the most vulnerable households.

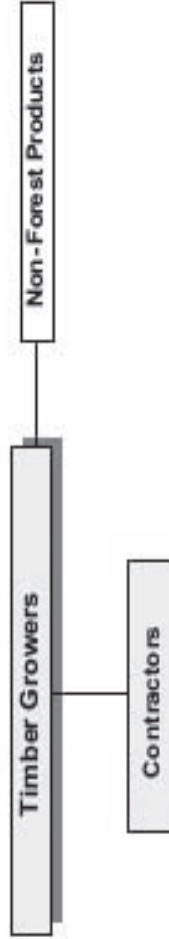
The major challenge to growth and sustainable equity in the Forest Sector is the shortage in roundwood supply, which is not keeping pace with the increase in the local demand for forest products. If this challenge is not addressed, growth and employment prospects and opportunities for transformation in the Forest Sector will be seriously constrained.



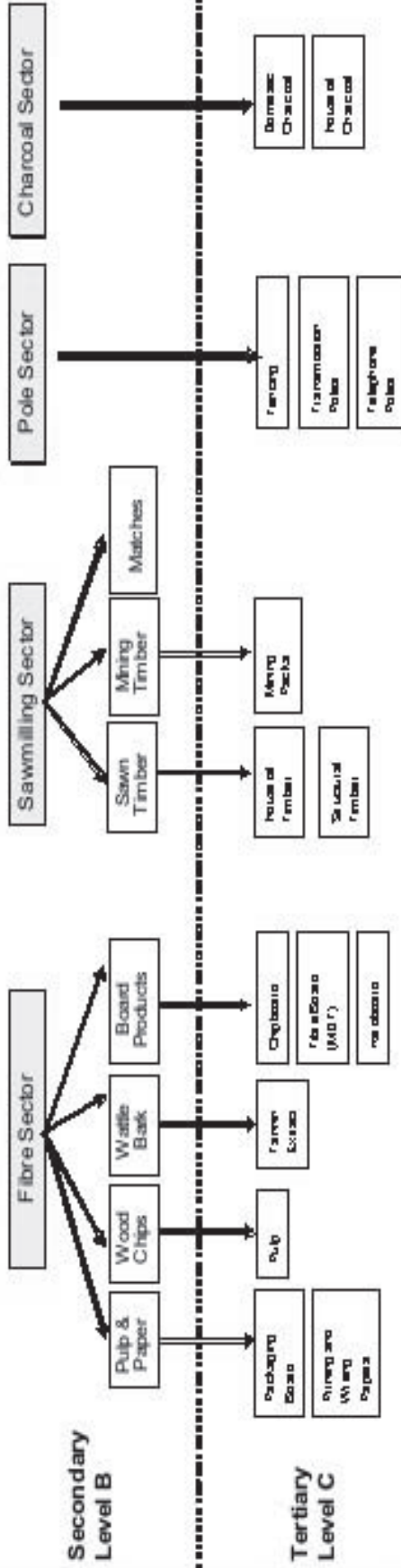
**The forestry and forest product sub-sectors covered by the Charter and their linkages with downstream industries is illustrated in figure 2.**  
**Figure 2**



# Structure of the Forestry, Forest Products and the Downstream Sectors



Primary Level A



Secondary Level B

Tertiary Level C

### 3. Current State of Empowerment in the Sector

The following tables present an overview of the current state of broad-based black economic empowerment in the Sector with regard to key elements covered by the Sector Scorecard. The information in the Table below is from a survey of enterprises in each sub-sector during 2006.

#### 3.1 Equity Ownership

Sub-sector	Weighted Average	
	Black Total	Black Women
Plantation Growers		
- Corporate	8,0% <sup>1)</sup>	0,1% <sup>1)</sup>
- Private Farmers <sup>2)</sup>	< 5%	< 5%
- Emerging Growers <sup>2)</sup>	> 95%	> 80%
Fibre [Pulp, Paper and Composite Board Producers]	10,5%	0,0%
Sawmilling		
- Large Millers	20,1%	0,3%
- Medium Millers	5,1%	2,1%
- Small Millers <sup>2)</sup>	> 80%	< 20%
Pole Producers	7,6%	0,5%
Charcoal Producers		
- Corporate	1,3%	0,0%
- Small Producers <sup>2)</sup>	> 80%	> 50%
Forestry Contractors	39,8%	6,7%

1) Figures estimated from survey data of fibre and large sawmilling groups (i.e. integrated forestry and forest products processing companies)

2) Estimated

**Note:** The fibre sub-sector comprises a number of large groups with international shareholding and asset profiles (e.g. Sappi, Steinhoff, Sonae, Masonite). The sawmilling sub-sector has large sawmilling participants that are wholly or partly state-owned (SAFCOL, Komatiland Forests (Pty) Ltd, MTO Forestry (Pty) Ltd, Singisi Forest Products (Pty) Ltd, Siyaqhubeka Forests (pty) Ltd, Amathole Forestry Company (Pty) Ltd) or owned by a trust (Hans Merensky Holdings). All other sub-sectors mostly comprise medium-sized or emerging enterprises in private hands.

## 3.2 Management Control and Employment Equity

Sub-sectors	Board Level		Executive Management Level		Middle Management Level	
	Black Total	Black Women	Black Total	Black Women	Black Total	Black Women
Plantation Growers <sup>1)</sup>	23,0% <sup>1)</sup>	3,8% <sup>1)</sup>	13,0% <sup>1)</sup>	2,7% <sup>1)</sup>	17,6% <sup>1)</sup>	4,7% <sup>1)</sup>
Fibre [Pulp, Paper and Composite Board Producers]	26,7%	6,7%	18,5%	0,4%	19,8%	2,1%
Sawmilling	19,6%	3,9%	20,5%	7,0%	30,5%	9,8%
- Large Millers	8,6%	2,5%	5,7%	1,2%	30,7%	1,2%
- Medium Millers						
Pole Producers	0,0%	0,0%	1,6%	1,1%	4,7%	0,5%
Charcoal Producers	1,3%	0,0%	47,0%	15,8%	83,8%	31,4%
Forestry Contractors	33,0%	7,1%	33,8%	12,3%	52,9%	14,2%

1) Figures estimated from survey data of fibre and large sawmilling groups (i.e. integrated forestry and forest products processing companies)

## 3.3 Other Key Elements

Sub-sector	Skills Development <sup>1)</sup>	Preferential Procurement <sup>2)</sup>	Enterprise Development <sup>3)</sup>	Social Investment <sup>4)</sup>
Plantation Growers	1,4%	31,0%	n/a	n/a
Fibre [Pulp, Paper and Composite Board Producers]	2,4%	19,8%	0,6%	4,2%
Sawmilling				
- Large Millers	1,0%	n/a	n/a	n/a
- Medium Millers	1,0%	n/a	n/a	n/a
Pole Producers	0,8%	7,5%	0,0%	0,5%
Charcoal Producers	0,5%	25,0%	n/a	n/a
Forestry Contractors	n/a	n/a	n/a	n/a

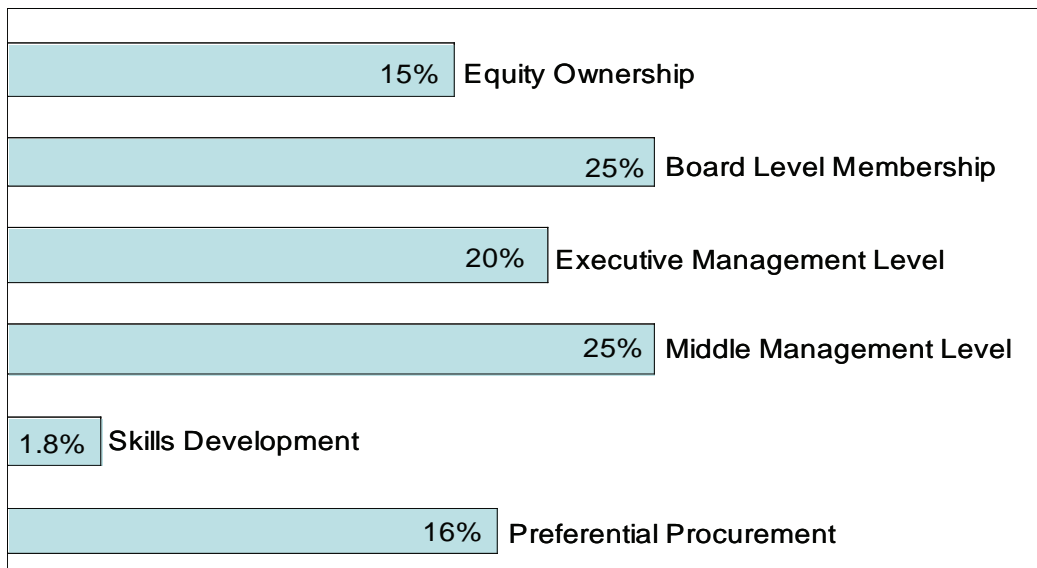
- 1) Skills Development: Investment as percentage of payroll
- 2) Preferential Procurement: Discretionary procurement spend on black suppliers
- 3) Enterprise Development: Investment in enterprise development as percentage of net profit after tax
- 4) Social Investment: Investment in social/economic development as percentage of net profit after tax

**Note: The high level of ‘not available’ data is mostly a reflection of the inability by companies to access/ gather reliable data due to lack of systems and that the data provided in the survey forms is not compatible with the Scorecard definition. Only in the case of larger companies in the fibre sector can the data be regarded as representative.**

### 3.4 Conclusions

The weighted average (according to sector size) BEE status for the Forest Sector as a whole is shown below.

#### Forest Sector Weighted Average BEE Score



Important findings from the analysis are:

- ❑ Significant differences are apparent from the unique structure of the Sector; comprising corporate enterprises, medium sized enterprises under private ownership and small producers.
- ❑ Participation by black people is a challenge.
- ❑ Broad-base participation is a challenge
- ❑ Small producers (growers and processors) in the Sector have a significant BEE profile; medium-sized enterprises have limited BEE status and certain corporates already have made good progress towards greater BEE.
- ❑ Black women ownership and employment equity in the Forest Sector is at very low levels.
- ❑ Relatively high levels of spend by large corporate companies in skills development and corporate social investment.

# 4. Sector Challenges

## 4.1 Increase roundwood supply

Forest Sector transformation depends to a large extent on growth of the Sector. This growth depends in turn strongly in increased domestic roundwood production. The main limitation to increased production is the current slow rate of new afforestation. This, in part, is owing to slow granting of afforestation licences.

Most of the remaining land suitable for new afforestation is communally owned land in the Eastern Cape and KZN, which offers direct opportunities for B-BBEE.

Key Challenge	Requirements
New afforestation	Expedite and streamline afforestation authorisation processes
	Secure land holding rights and structures on communal land
	Community facilitation, extension support and training for new entrants
	Access to funds and financial services for new entrants
	Infrastructure development (roads, telecommunication, electricity)
Improved yields in existing plantations	Restoration and transfer of remaining (Category B and C) State forest plantations
	Expedite approval process for riparian zone, jungle and species/genus exchange or conversion
	Improve forest protection services to combat plantation losses through fire, pests and diseases
	Ongoing productivity gains through improved site-species matching, planning and genetic improvements
	Expedite the settlement of restitution claims on private forest land to encourage re-investment in forest assets
Ensure continued use of plantation areas for timber production	Secure agreements with restitution claimants and other beneficiaries of land reform on the continued use of plantation areas for timber production
	Provide post settlement support to land reform beneficiaries to ensure continued productivity
	Ensure a Property Tax regime that supports sustainable forestry operations

## 4.2 Sustainable supply and better utilisation of sawlogs

While South Africa faces a shortfall in roundwood production overall, the shortage of sawlogs is critical. The long rotation period for sawlogs makes this less attractive to the private sector than other roundwood production, and until recently the State plantations have provided most of the country's sawlogs. With the State's exit from commercial forestry operations, measures are needed to ensure a sustained and increased production of sawlogs

Key challenge	Requirements
Sustainable supply of sawlogs	Industry wide agreement on a sawlog growing strategy and programme
Improved utilisation rates by saw millers <i>Focus on medium to small scale saw millers</i>	Skills development and training
	Capital investment in new technology
	Importing sawlogs as a bridging arrangement

## 4.3 Local beneficiation in and through the fibre production sub-sector

Substantial opportunities exist to support transformation through the establishment of beneficiating enterprises in and through the fibre production sub-sector.

Key challenge	Requirements
Maximising opportunities for local beneficiation of raw materials  <i>Note that local beneficiation opportunities in the Forest Sector are subject to international market conditions</i>	Improve access to venture capital and appropriate technology to support new pulp and paper manufacturing opportunities
	Tighten anti-dumping measures in pulp and paper products
	Extend the black engineering and artisan skills base
	Expedite the processing of water permit applications for manufacturing plants
Develop opportunities for local manufacturing of chemical and technology inputs procured by pulp, paper and fibreboard industries	Improve access to venture capital and appropriate technology
	Extend the black engineering and artisan skills base
Establish industries based on waste products from pulp, paper and fibreboard industries	Improve access to venture capital and appropriate technology
	Extend the black engineering and artisan skills base

## 4.4 Equity in the forestry value chain

Despite recent advances in black ownership in the pulp and paper sub-sector, black ownership in the Forest Sector remains highly skewed towards the lower end of the value chain (small scale timber growing and contracting). Moreover the number of black women who manage, own and control enterprises and productive assets outside the small grower sub-sector is very limited. Actions are required to promote greater equity in all of the sub-sectors.

Key challenge	Requirements
<b>Equity ownership in the forest products industry</b>	
Increase black ownership of existing enterprises	Sale of equity ownership across all sub-sectors
Growth in beneficiation activities	New technology to support the development of low-volume enterprises (paper) Improve quality of products amongst smaller producers (poles, charcoal) Improved packaging and marketing opportunities (charcoal)
Sale of business assets	Limited opportunities as a result of vertical integration
Small grower participation in forestry value chain	Apply mechanisms to provide growers with a share of profits that accrue from downstream processing
<b>Equity ownership in the growers sub-sector</b>	
Increase black ownership of existing enterprises	Sale of ownership shares, particularly in large forestry enterprises.
Sale of business assets	Sale of plantations to black people
Growth in new enterprises	Promote new afforestation in Eastern Cape and KwaZulu-Natal
Restructuring of State Forests	Implement the 10% equity shareholding in leased state forest land earmarked for black-economic empowerment of local communities
	Implement the 9% equity shareholding in leased state forest land earmarked for black-economic empowerment of workers
	Confirm land-holding rights and establish land holding structures to enable the transfer of ownership and lease rentals to communities in relation to leased state forest land
	Confirm land-holding rights and establish land holding structures, where applicable to the remaining (Category B and C) state plantations

## 4.5 Empowerment and sustainability of small forest sector enterprises

To ensure long-term sustainability, growth and equity in the Forest Sector, attention needs to be given to greater empowerment and profitability of existing small enterprises in the Sub-sectors of Growers; Forestry Contractors; Sawmillers; and Charcoal and Treated Pole Producers

Key challenge	Requirements
Empowerment and increased profitability of small-scale forest enterprises: - Forestry Contractors - Growers - Sawmillers - Treated Pole Producers - Charcoal Producers	Strengthen representative organisations where they exist (Growers, Forestry Contractors and Treated Pole Producers) and establish them where they are absent (Sawmillers, Charcoal Producers)
	Regulate contracting and employment relationships through industry codes of practice and the application of existing legislative protections
	Establish mechanisms to secure adequate and regular supplies of raw materials
	Improve access to finance and insurance
	Improve access to skills training and technology for improved productivity and added value
	Improve access to markets through certification and better infrastructure

## 4.6 Linking forestry with poverty alleviation and local economic development

Most forest enterprises are located in rural areas where the majority of the country's poor live. The long term growth and stability in the Forest Sector can only be secured if aligned with interventions to address deep-seated inequalities and bridge the gap between the first and second economy. ASGISA, Government's Poverty Alleviation Agenda, Rural Development Strategy and Local Economic Development (LED) strategy are key interventions wherein the Forest Sector can make meaningful contributions.

Key challenges	Requirements
To provide improved livelihood opportunities for the rural poor in forestry areas	Assure fair and equitable conditions of employment
	Promote local economic development through improved viability of existing enterprises and establishment of new enterprises
	Ensure restructuring of state forest assets so as to benefit local communities (refer to par. 4.4 above)
	Promote livelihood opportunities for rural households by providing access to non-timber forest products such as firewood, building poles, medicinal plants and edible fruits
	Use buying power of forest industry as a catalyst for downstream local economic development



# 5 Details on Undertakings in the Charter

## 5.1 Streamline and expedite afforestation licensing procedures

Par. 13.2.3 (a) of the Charter contains the undertaking to streamline and expedite afforestation licensing procedures to facilitate the establishment of a minimum of 100 000ha net increase in planted area over ten years, based on a target average of 10 000ha per annum, while at the same time ensuring that forestry's water use is considered and weighted fully against competing proponents for water allocation in licensing decisions. This will comprise the following measures:

- (a) Create an enabling regulatory environment that renders the costs of the water use licence application process affordable to emerging growers.
- (b) Support and advise emerging growers in the water licensing application process, in compliance with environmental and other afforestation authorisation requirements.
- (c) Take steps to ensure that legislative and regulatory requirements do not result in forestry and the planting of trees for commercial and subsistence use being disadvantaged in relation to other forms of land use.
- (d) Ensure that all applications for afforestation are processed expeditiously by developing a Memorandum of Understanding (MoU) with and ratified by other pertinent authorising regulatory authorities. The MoU should ensure strict enforcement of the Stream Flow Reduction Activity (SFRA) application procedures and adherence by all participating parties to the laid down time frames prescribed for relevant interventions, such as inspecting sites, receiving and attending to comments, and processing applications.
- (e) Implement a proactive approach to forestry development in areas that have substantial opportunities for afforestation, namely a co-operative government initiative to authorise swift afforestation licensing in areas that have been identified and demarcated as being suitable for afforestation in the Eastern Cape and KwaZulu-Natal. This will be provided for in the Memorandum of Understanding referred to in par (d) above.
- (f) Develop a protocol to be included in the Memorandum of Understanding referred to in par. (d) above to facilitate lawful conversion of tree genus or species, specified as a permit or licence condition, where this change should be informed by forestry practice or economics. The key principle governing such change will be the water use condition of the applicable authorisation.
- (g) Make provision for water use by subsistence and homestead woodlots by providing for the consideration of a Schedule 1 provision and/or General Authorisation for such small-scale woodlots.
- (h) Facilitate the transfer or trade of a water use allocation or existing lawful use of water, and the issuing of licences in the event of conversion of a land use from irrigated cropping (including sugarcane) to timber plantations.
- (i) Allow water use by dryland sugarcane to be allocated to timber plantations, based on an equitable water use exchange ratio for these crops, provided that such dryland sugarcane has been an existing land use practice for at least five years, and that this does not compromise the availability of water to the Reserve and other lawful water users.

- (j) Allow the water use attributed to wattle, pine and eucalyptus jungles that are rehabilitated or converted and correctly managed as commercial timber plantations, to be allocated through an SFRA water use licence to such timber plantations. General Authorisations will be considered in catchments where there is sufficient available water to allow such conversion.
- (k) Develop an efficient and effective framework to authorise the re-allocation of water, where timber as an existing lawful water use in a riparian zone is excised, to alternative plantation areas within the same quaternary catchments or elsewhere within the wider catchment.
- (l) Ensure that emerging timber growers who have lawfully licensed timber plantations are included in DWAF's definition of "resource poor farmers" and subject to the same benefits as others so classified.

## 5.2 Sawlog growing strategy and programme for South Africa

Par. 15.2.2 of the Charter contains the undertaking to develop a sawlog growing strategy and programme. This strategy and programme will include the following measures:

- (a) Ensure that emerging timber growers who have lawfully licensed timber plantations are included in DWAF's definition of "resource poor farmers" and subject to the same benefits as others so classified.
- (b) Review the State Forest Exit Strategy in Southern and Western Cape.
- (c) Create incentives for emerging black growers to invest in long rotation sawtimber crops.
- (d) Develop government conditions on lease of state forestland to ensure the continued production of sawlogs.
- (e) Promote greater investment by the sawmilling industry in raw material supply.
- (f) Create land dedication schemes for long rotation crops linked to, inter alia, tax incentives.
- (g) Develop sector programmes involving government and the industry to combat softwood plantation losses.
- (h) Develop appropriate species selection, growing and harvesting strategies that meet the structured market requirements for a diversity of saw-timber products in the country.

## 5.3 Forest protection services

Par. 15.2.3 of the Charter contains the undertaking to develop a forest protection strategy to reduce the currently escalating losses being experienced through fires, pest and disease. This strategy and programme will include the following measures:

- (a) Pests and diseases
  - a. Government, through DWAF, and the Industry undertake to:
  - b. Profile pest and disease issues as a Government priority.

- c. Compile a risk analysis of the current and potential threats facing timber plantations and to make recommendations as to the best way to mitigate these.
- d. Develop and agree upon an integrated strategy to implement the recommendations, including providing for increased levels of support through infrastructure, human resource capacity and funding.
- e. Prioritise pest and disease research aspects in the Forest Sector R&D strategy.
- f. Negotiate with the national Department of Agriculture to expedite the procedures for importation of Biological Control Agents to assist in the control of pest and disease outbreaks.
- g. Enhance phytosanitary monitoring and control at ports of entry into South Africa.
- h. Enhance public awareness about the threats posed by forest pest and diseases.

(b) Forest fires

Government, through DWAF, undertakes to:

- a. Ensure that policies and strategies are in place to ensure compliance by land owners with the provisions of the National Veld and Forest Fire Act, 1998 (Act No. 101 of 1998) as amended.
- b. Ensure that capacity exists to enforce the provisions of the NVFFA.
- c. Ensure that measures are in place to encourage enrolment and participation in Fire Protection Associations.
- d. Encourage the provision of resources to Fire Protection Associations, particularly those servicing communal areas, to enable them to provide improved levels of service.
- e. Assist Industry through the provision of 'seed funding' to implement emerging grower fire insurance cover as outlined in par. 13.2.5 of the Charter.
- f. Implement, on an ongoing basis, National Fire Awareness campaigns with particular emphasis on high fire risk areas.
- g. Support resource-poor Fire Protection Associations.
- h. Enhance capacity of Working on Fire programme to fight veld and forest fires.

Industry, in turn, undertakes to:

- i. Increase enrolment and participation in Fire Protection Associations.
- j. Increase collective support of equipment, personnel and training for Fire Protection Associations.
- k. Enhance cooperation and support to the Working on Fire programme.
- l. Provide access to fire fighting training for emerging growers.
- m. Implement an emerging grower fire insurance scheme as outlined in par. 13.2.5 of the Charter.
- n. Implement fire awareness programmes in forest areas.

## 5.4 Charter Council

Par. 16.1 of the Charter contains the undertaking to establish a Forest Sector Charter Council that will oversee and facilitate the implementation of the Charter. The functions, composition, constitution and funding arrangements for the Council are outlined hereunder:

### (a) Functions

- a. Monitor the implementation of the Charter and review the Charter as outlined in par. 16.2 of the Charter.
- b. Provide interpretation and guidance with respect to the Charter.
- c. Facilitate the communication and popularisation of the Charter.
- d. Facilitate cross-industry and government negotiations to promote the application and implementation of the Charter.
- e. Provide guidance on sector-specific matters affecting B-BBEE in entities within the Sector.
- f. Share information with the national monitoring mechanism and approved accreditation agencies that are relevant to the Sector.
- g. Implement programmes to ensure that sufficient independent capacity of verification agencies exist to support the Charter.
- h. Initiate procedures to convert the Forest Charter into Sector Codes.
- i. Issue guidelines for sector-specific enterprise development and socio-economic development contributions under the Scorecard.

### (b) Composition

- a. The Council shall consist of 19 members, with the following composition:
  - o A Chairperson, who shall be an independent person, appointed by the Minister of Water Affairs and Forestry in consultation with stakeholder constituencies.
  - o A Chief Executive Officer, who shall be responsible for the daily administration and operations of the Council and serve on the Council in an ex-officio capacity.
  - o Nine (9) members representing industry, appointed from the various sub-sectors in the Forest Sector.
  - o Two (2) members representing organised labour.
  - o Three (3) members representing broader stakeholders assigned by the Minister of Water Affairs and Forestry in consultation with the stakeholder constituencies.
  - o Three (3) members representing government, one each from the Departments of Water Affairs and Forestry, Trade and Industry, and Land Affairs.
- b. The composition of the Council shall fairly reflect the stakeholders in the Sector and be racially and gender representative.

- c. The terms of office for members of the Council shall be 3 years, and members shall be eligible for re-appointment.
- d. The Chief Executive Officer shall be appointed jointly by the parties that fund the Charter Council as outlined in par. 5.4 (d) below.
- e. The Chief Executive Officers shall make other staff appointments.

(c) Constitution

- a. The Council shall be guided by the following five basic principles:

- o Transparency
- o Fairness
- o Corporate Governance
- o Consultation and inclusivity
- o Socio-economic transformation

- b. Decisions of the Council shall be taken on a consensus basis. If on any issue the Council is unable to achieve consensus, there will be a dispute breaking mechanism as specified in the Constitution referred to in par. e below.

- c. The Council may create sub-committees to deal with specific matters as and when required.

- d. The Council may co-opt experts to serve on or advise sub-committees as contemplated above.

- e. A Constitution of the Council shall be tabled for adoption at the first meeting of the Council and must be adopted by a two-third majority within 60 working days after the gazetting of this Charter.

- f. The Council may amend the Constitution of the Council from time to time.

- g. The Council shall, in consultation with the BEE Advisory Council and by resolution, formulate rules to further regulate its proceedings.

(d) Funding

- a. The Forest Industry and Government shall fund the Council jointly, with Government contributing 60% and Industry 40% of the budget requirements.

- b. The funding arrangement as outlined in par. a above is subject to agreement between these parties on the initial budget requirements for the Council and an annual escalation of the budget based on the South African Consumer Price Index, unless otherwise agreed to by the parties.

- c. The Council shall prepare an annual business plan that will include a budget for the work of the Council.

# 6.Explanatory notes to the Charter

## 6.1 Calculation of overall Ownership Profile for the Sector

Reference to par. 8.1 of the Charter

Expected levels of overall black ownership for the industry as a whole in ten years time were determined by analysing only the grower, fibre and sawmiller sub-sectors, which together comprise 95% of the sector.

Forestry	Ha	% BEE by 2017
Category A plantations	290 000	40
Category B & C plantations	70 000	75
Outgrower schemes	40 000	100
Mondi Shanduka	30 000	40
Other black growers	20 000	100
Balance of plantations	930 000	25
<b>TOTAL/WEIGHTED AVERAGE</b>	<b>1 380 000</b>	<b>34</b>

Fibre	Turnover (R billion)	% BEE by 2017
Mondi Shanduka	1,0	40
Mondi Packaging	3,0	40
Balance of companies	16,0	25
<b>TOTAL/WEIGHTED AVERAGE</b>	<b>20,0</b>	<b>28</b>

Sawmilling	Turnover (R billion)	% BEE by 2017
Small-scale millers	0,5	100
Category A packages	1,0	40
Balance of companies	3,8	25
<b>TOTAL/WEIGHTED AVERAGE</b>	<b>5,3</b>	<b>36</b>

The weighted average expected level of overall black ownership for 2017 for the Forest Sector is thus about 30% (weighting according to sector turnover; using R5 billion for the grower sub-sector). The application of bonus points to increase black ownership in existing enterprises with a black ownership target of 25% by a further 5% has not been included in these calculations

## 6.2 Comparison between Scorecard for the Forest Sector and the Generic Scorecard

Changes from the Generic Scorecard in the Codes of Good Practice and the justification for these changes are listed below.

### 6.2.1 Qualifications for ESMEs

Compliance with the Industry Codes of Good Conduct is also applied to ESMEs. ESMEs must, when they submit proof of their ESME-status, also sign a commitment of compliance with the Industry Codes of Good Conduct. ESMEs that don't comply will lose the BEE status afforded to them, namely the Level 3 contributor for those that are 50% owned by black people or by black women or Level 4 contributor for other ESMEs.

### 6.2.2 Bonus points

Additional bonus points have been allocated (11 instead of 7 for medium and large enterprises and 10 instead of 7 for QSE) as an incentive to achieve higher sector-specific targets as further outlined below.

### 6.2.3 Medium/large enterprises

Ownership targets

- a) The target for economic interest in the hands of broad-based black ownership schemes has been increased from 2.5% to 7.5%. This is justified on the basis that the Forest Sector, as a rural based industry, can make a significant contribution to broad-based BEE in this regard. This does not affect the overall ownership targets.
- b) Two bonus points have been allocated as an incentive to achieve higher overall ownership targets in terms of economic interest in the hands of black people (30%) and in the hands of black women (15%).
- c) The realization points for net equity interests for growers is based on full payment in equal tranches over the crop rotation period and not the 10-year repayment period that applies to the rest of the Sector and the economy. This reflects the reality in tree farming where return on investment is realized at harvesting.

#### Management Control

The allocation of one bonus point as an incentive to appoint non-executive board members has not been applied in the Forest Sector. Greater BEE impact can be obtained by using this bonus point as an incentive to support a higher overall ownership target.

### Employment Equity targets and weightings

There is a need to ensure equitable and sustainable contracting and employment practices in the Forest Sector through the introduction of Industry Codes of Good Conduct. This is necessary to ensure that not only the quantity but also the quality of black participation in the industry is improved. Compliance with Industry Codes of Good Conduct on employment practices has been set as a minimum requirement for scoring on the Employment Equity element of the Scorecard. Note that contracting practice is dealt with under the preferential procurement element.

#### Preferential procurement targets and weightings

The need for Industry Codes of Good Conduct has been highlighted in the previous paragraph. Three (3) points have been re-allocated to promote compliance with Industry Codes of Good Conduct as it relates to contracting practices for enterprises that are engaged in forestry contracting and charcoal production contracting and emerging grower contracting schemes. Forest enterprises that are not involved in any of these contracting practices will be subject to the Generic Scorecard weightings for the preferential procurement element.

#### Enterprise Development and Socio-economic Development targets and weightings

- a) The emphasis placed in the Generic Scorecard on preferential procurement is based on the notion of a demand-driven economy. However, due a shortage of raw material supply, the forest products industry in South Africa is largely supply-driven. Shortages in log and sawtimber supplies enable forest enterprises to leverage B-BBEE through the sale of these products to BEE enterprises. For this reason three (3) of the fifteen (15) points have been re-allocated to support the sale of logs and sawtimber to BEE-compliant and black-owned enterprises.
- b) Three (3) bonus points have been allocated for additional spend (one bonus for every 0.25% NPAT on sector-specific initiatives in enterprise development or socio-economic development. This is aimed at directing B-BBEE initiatives to address sector-specific challenges facing the industry, in particular:
  - o To support, encourage and nurture emerging black enterprises that will contribute to: (a) increased timber supply; and (b) beneficiation in the forestry value chain.
  - o To improve the living conditions and livelihood opportunities for the rural poor, including Forest Sector workers and their families, in forestry areas. Most forest enterprises are located in rural areas where the majority of the country's poor live. The long-term growth and stability in the Forest Sector can only be secured if aligned with broad-based poverty alleviation and local economic development.

## 6.2.4 Qualifying Small Enterprises

Sector-specific measures have been included in this Scorecard in tandem with what is proposed for the Scorecard for medium and large enterprises. The need for this is underscored by the fact that the QSE threshold has substantially increased and that a much greater range of enterprises would need to be adequately covered by this Scorecard.

### Employment Equity

The need to ensure equitable and sustainable contracting and employment practices in the Forest Sector through the introduction of Industry Codes of Good Conduct (refer to in par. 9.2.3) also applies to QSEs. Five (5) of the twenty-five (25) points have been re-allocated in the Scorecard to promote compliance with Industry Codes of Good Conduct on employment practices. Note that



complying with these Codes is less demanding for medium and large enterprises and compliance has been set as a minimum requirement for scoring on the Employment Equity element of their Scorecard.

### Preferential procurement targets and weightings

Five (5) of the twenty-five (25) points have been re-allocated to promote compliance with Industry Codes of Good Conduct as it relates to forestry contracting and charcoal production contracting and emerging grower contracting schemes. Forest enterprises that are not involved in any of these contracting practices will be subject to the Generic Scorecard weightings for the preferential procurement element.

### Enterprise Development and Socio-economic Development targets and weightings

- a) Shortages in log and sawtimber supplies enable forest enterprises to leverage B-BBEE through the sale of these products to BEE enterprises. For this reason five (5) of the twenty-five 25 points have been re-allocated to support the sale of logs and sawtimber to BEE-compliant and black-owned enterprises.
- b) As with medium/large enterprises, three bonus points have been allocated for additional spend (one bonus for every 0.25% NPAT) on sector-specific initiatives in enterprise development or socio-economic development.

## 6.3 Further details on Skills Development Strategy/Plan

Refer to par. 11.2.1 of the Charter

Key elements to be addressed through a skills development strategy/plan for the Forest Sector include the following:

### 6.3.1 Strengthen the national framework for skills development

The framework for skills development comprises of several elements that are necessary for the overall system to work. Additional effort is needed to ensure that the following elements are in place:

- a. Identify scarce, critical and core skills. Skills development grants can be claimed for training that meets identified scarce and critical skills. Chambers need to submit lists of scarce and critical skills to the Department of Labour for these purposes. Some scarce and critical skills fall outside the direct influence of the FIETA e.g. 1<sup>st</sup> line supervision and Leadership/Management development. These will therefore qualify as Core skills.
- b. Conduct skills needs analysis for each sub-sector. The strategy and programme for reaching Scorecard targets needs to be based on an analysis of existing skills and skills gaps for the specified groups.
- c. Development of appropriate Outcomes Based Unit Standards. Sub-sector Standard Generating Bodies to continue with the process of developing and facilitating the registration of Unit Standards, Qualifications and Learnerships in accordance with their needs.
- d. Qualifications to match training needs registered with SAQA. Registration of Unit Standards and Qualifications through SAQA has been unacceptably slow, a problem common to most sectors. The process needs to be accelerated. Without this registration the Department of Labour cannot

register Learnerships, while registration also forms the basis for the development of credit bearing short courses and skills programmes.

- e. Sector wide ABET initiative. ABET is a national imperative, and there is a need for a dedicated and sector-wide approach to ensure effectiveness and sustainability of such an initiative. The Department of Labour has commissioned an investigation into the ABET programme and recommendations are now available. This offers a basis for designing a sector-wide initiative on ABET.

### 6.3.2 Strengthen sector capacity for skills development delivery

- a. Strengthen capacity of FIETA. Only 10% of Skills Levies may be spent on Administration. More and more demands are being made on SETAs and the smaller SETA's, including FIETA, are stretched beyond capacity. Measures are needed to strengthen the capacity of FIETA, to enable it to meet its statutory requirements in registering learning programmes and training service providers.
- b. Implementation mechanisms for the additional skills development spend. The skills development strategy/plan needs to identify and deploy streamlined implementation mechanisms for the additional 3% skills development spend provided for in this Charter. It must be noted that this need not be implemented through the FIETA in the same way as the statutory skills development levy.
- c. Expand training infrastructure. The network of training service providers, in particular ABET service providers, needs to be expanded.

### 6.3.3 Promote skills development opportunities for youth and new entrants in the Forest Sector

Specific measures are needed to attract the youth into tertiary studies in forestry and to ensure higher pass rates to ensure a flow of skilled new entrants into the Sector.

- a. Plan for the promotion of forestry as career of choice. It is necessary to raise the profile of the Forest Sector as "Employers of Choice" to procure quality students and employees in the future.
- b. Plan for new and enhanced bridging courses. Current drop out rate of students from secondary to tertiary education is high due to poor secondary education. Bridging courses to prepare learners for the requirements of tertiary education are needed to reduce the drop out rate.
- c. Enhance quality of secondary education in maths and sciences. The quality and quantity of Mathematics and Physical Science learners at secondary level needs attention. Without quality learners in these subjects the Sector will not be able to train the required numbers into technical and management fields specific to the Sector. Initiatives in this regard should link with those under ASGI-SA and JIPSA.

## 6.4 Further details on Industry Codes of Conduct on Contracting and Employment

Refer to par. 12.2.1 of the Charter.

The Forest Charter Steering Committee has prepared the following guidelines for the preparation of the Industry Codes of Conduct for the Forest Sector:

## 6.4.1 Codes for forestry contracting

The aim of these Codes is to ensure longer-term stability, sustainable growth and equitable practices in the forestry contracting sub-sector. These Codes will control and direct the relationship between contracting companies and contractors, and between contractors and sub-contractors. The Codes will provide for larger and longer-term contracts enabling contractors to improve margins and invest in their businesses and staff. It will also provide for transparent and accessible tendering systems and fair pricing that will support good governance and fair labour practices. The following elements will be dealt with in these Codes:

### a. Contractual arrangements

- The forestry industry will develop and follow standard (model) contracts that specify contract terms, payment terms and contract duration, risk sharing, termination and conflict resolution.
- Forestry enterprises will ensure that contract conditions enable and specify compliance with the Codes on employment practices in the Forest Sector and that measures are stipulated to monitor and enforce compliance with these codes.
- Forestry enterprises will ensure that contract conditions enable and specify compliance with the Codes on health and safety standards for forestry contract work and that measures are stipulated to monitor and enforce compliance with these codes.
- Forestry enterprises will secure a contracting environment that is conducive to successful meeting of contract conditions (e.g. maintaining forestry roads to reasonable standard).
- Contracting parties will maintain confidentiality of contracts and contract terms.

### b. Contract negotiations

- Associations representing growers and forestry contractors will provide access to industry developed best operating practices for standard forestry operations. These guidelines are aimed at enabling contractors to determine their market related costs in tendering for contracts.
- Forestry enterprises will ensure that contractor rate adequately reflect minimum statutory labour costs and other reasonable expenses to be incurred in performing the work and that contractor rates are not established at the expense of fair labour and sustainable business practices.
- Contracting parties will provide access to performance standards and unit payment information by forestry enterprises, contractors and workers.

### c. Tendering and procurement

- Forestry enterprises will establish open, transparent and accessible tendering and procurement system.
- Forestry enterprises will include clear selection and appraisal criteria in tender documents.
- Forestry enterprises will, wherever possible, give preference to local operators and communities.
- The forestry contractors association will establish a database of available contractors (indicating key skills).

d. Mediation and arbitration

- Associations representing growers and forestry contractors will formulate and implement guidelines for arbitration and mediation in the forestry contracting sector.
- Associations representing growers and forestry contractors will establish an independent dispute resolution mechanism and/or Forestry Contractors' ombudsman.

e. Safety, health and environment

- The forestry contractors association will provide access to best-practice standards and work methods for key contracting operations and equipment. Contractors will comply with these standards.
- The forestry contractors association will provide access to minimum acceptable standards for providing access to housing facilities (including transport to and from work) and basic foodstuff for workers who have to live on-site. Contractors will comply with these standards.
- Certification agencies will ensure adherence to certification requirements and implementation of Principles, Criteria, Indicators and Standards of Sustainable Forest Management.

f. Industry governance

- Associations representing growers and forestry contractors will secure agreement through a Memorandum of Understanding (MOU) to jointly stabilise and grow the forest sector contracting industry.
- The capacity of the forestry contractors association to provide advice and support to small scale contractors on contract negotiations, labour laws and all other aspects relating to the effective implementation of the Codes forestry contractors will be strengthened.
- The forestry contractors association will implement a system of membership accreditation and grading of all contractors.

g. Support and training

- The forestry contractors association will establish guidelines for mentorship support and training.
- Forestry enterprises will maintain contracting conditions that facilitate access to funding sources.

## 6.4.2 Codes for emerging forest grower schemes (EFGS)

The promotion of Emerging Forest Grower Schemes by companies and cooperatives is an important means to support B-BBEE in forestry. There is a need to ensure that good practice is applied in implementing these schemes that support the aims, principles and targets set out in the Forest Sector Transformation Charter. These Codes will control and direct contracts with emerging growers in company-affiliated schemes. The Codes will provide transparency in the costing of support services and market related pricing arrangements for timber that will support sustainable business practices, good governance and fair labour practices. The following elements will be dealt with in these Codes:

a. Funding and contractual arrangements

- The organization promoting EFGS may include, among the contracting obligations of the grower, an undertaking binding the grower to, in the first instance, sell timber or any other product to the organization promoting EFGS. Forest enterprises not party to the agreement will respect such arrangements.
- The price paid for the timber or other forest products must be a fair market price. In the event of a price dispute the matter will be referred to an expert.
- If required by an external funding agency, the organization promoting EFGS will agree to a minimum guaranteed price for the timber and any other products at maturity of the development.
- The organization promoting EFGS cannot use “state funding agency’s” capital as part of their Enterprise Development costs.
- If the organization promoting EFGS guarantees repayment of the loans on behalf of the EFGS, that portion not repaid – i.e. default by ‘EFGS’ can be added to Enterprise Development costs.

b. Transparency

- All accumulated costs to be incurred to determine the selling price for the timber or other forest products must be made known in writing and be properly explained to the emerging grower.
- In the process of implementation of the EFGS, there must be total transparency with regard to the terms of loans and any other aspect of the financial agreement. Effective measures to ensure clear understanding amongst parties to financial agreement of the conditions it contains and their implications, need to be spelled out in the EFGS Code of Conduct.
- At harvest, a full and clear statement of prices and production costs must be communicated to all parties.

c. Plantation insurance

- During the development of the EFGS and over the full rotation, the “promoter” must ensure adequate plantation insurance cover at the option of the emerging grower to meet the emerging growers’ plantation expectation value throughout the rotation. If the funding agencies require insurance as a condition of funding, the option will fall away, and insurance becomes compulsory.

### 6.4.3 Codes for charcoal contracting

The aim of these Codes is to ensure longer-term stability, sustainable growth and equitable contracting practices in the charcoal sub-sector. These Codes will control and direct the relationship between small black charcoal producers and the brand name producers and industrial users of charcoal. The Codes will provide for joint ventures and partnerships between small scale suppliers and large scale buyers of charcoal and a fair, transparent and stable pricing system that will support sustainable business practices, good governance and fair labour practices. The following elements will be dealt with in these Codes:

a. Joint Ventures and Partnerships

- The charcoal industry will provide for joint venture and partnership arrangements that will encourage the establishment of viable charcoal production enterprises.

- Contract terms and conditions for joint ventures and partnerships will result in the transfer of skills and productive capacity to charcoal production enterprises.
- Contract terms and conditions for joint ventures and partnerships will lead to the establishment of independent operators (without limitations as to its clients and customers) within a defined period of time.

b. Contractual arrangements

- The charcoal industry will develop and follow standard (model) contracts for procurement from small charcoal producers that specify contract terms (such as the supply of raw material and equipment, transport of charcoal, site establishment and intellectual propriety), payment terms and contract duration, risk sharing, termination and conflict resolution.
- The charcoal industry association will provide access to industry developed best operating practices for charcoal production operations. These guidelines are aimed at enabling charcoal producers to determine their market related costs in tendering for contracts.
- Large scale buyers of charcoal will ensure that contractor rates adequately reflect minimum statutory labour costs and other reasonable expenses to be incurred in performing the work and that contractor rates are not established at the expense of fair labour and sustainable business practices.
- Large scale buyers of charcoal will ensure that contract conditions enable and specify compliance with the Codes on employment practices in the Forest Sector and that measures are stipulated to monitor and enforce compliance with these codes.
- Large scale buyers of charcoal will ensure that contract conditions enable and specify compliance with the Codes on environmental, health and safety standards for charcoal production and that measures are stipulated to monitor and enforce compliance with these Codes.
- Large scale buyers of charcoal will maintain contracting conditions that facilitate access to capital investment in charcoal production.

c. Safety, health and environment

- The charcoal industry association will provide access to best-practice standards and work methods to comply with safety health and environmental standards for charcoal production. Charcoal producers will comply with these standards.
- The charcoal industry association will provide access to minimum acceptable standards in providing access to housing facilities (including transport to and from work) and basic foodstuff for workers who have to live on-site. Charcoal producers will comply with these standards.
- Certification agencies will ensure adherence to certification requirements and implementation of Principles, Criteria, Indicators and Standards of Sustainable Forest Management.

d. Industry governance

- The charcoal industry association will be strengthened with key capabilities relating to the effective implementation of the Codes forestry contractors.
- The charcoal industry association will implement a system of membership accreditation and grading of all members.

#### 6.4.4 Codes for employment practices:

The aim of these Codes is to ensure equitable employment practices in the Forest Sector. These Codes will give practical effect and weight to fair labour practices as provided for under the Basic Conditions of Employment Act, 1997, and other labour legislation as it applies to employees, including contract workers. The following elements will be dealt with in these Codes:

a. Contracts and wages

- Employers will ensure written employment contracts for all workers, including contractor workers, that complying with all relevant labour legislation and regulations.
- Employers will inform workers of their employment rights, translate the Basic Conditions of Employment Act and the Sectoral Determination agreement into languages understood by the workforce and display these documents.
- Employers will clearly inform workers of the tasks that are expected from them.
- Employers will adhere to minimum wage stipulations.

b. Labour Relations Act

- Employers will respect and promote the right of all workers to join organisations of their choice and to create an enabling environment for the establishment and growth of worker organisations.
- Employers will inform workers of their right under the Labour Relations Act.

c. Occupational Injuries and diseases

- Employers will register with the Compensation Fund so that their workers can claim compensation for occupational injuries and diseases.
- Employers will inform workers of their right under the Compensation for Occupational Injuries and Diseases Act.

d. Unemployment Insurance

- Employers will register with the Unemployment Insurance Fund (UIF).
- Employers will inform workers of their right under the Unemployment Insurance Act.

e. Occupational Health and Safety

- Employers will ensure compliance with Occupational Safety and Health Act (OSHA), e.g. basic requirements regarding protective clothing, noise protection, and quick access to emergency treatment.

#### 6.5 Motivation to fund and/or subsidise the interest burden to develop emerging forestry enterprises

Refer to par. 8.2.1 and 13.2.1 (e) of the Charter.

The cost-of-capital for emerging grower enterprises is often prohibitive to the enterprise because

of the long crop rotation (often exceeding 10 years), and hence deferred revenue. Subsidising the cost-of-capital reduces the cash flow obligation of the emerging grower enterprise resulting from capital loans.

A number of models have been analysed (refer to [Appendix: Forestry Funding Models](#)) to determine the effect of interest costs on afforestation schemes and B-BBEE equity transfers in the Forestry Sector. All of these show that, if interest costs are subsidised, the models become substantially more viable and are likely to improve the chances of success of Broad-based Black Empowerment.

### 6.5.1 Rationale for interest subsidisation for emerging grower schemes

- a. The small grower initiative is intended to provide an income to poorer people. By their nature, poverty alleviation schemes are targeted at people who do not have resources to fund their living expenses for the length of time timber takes to grow to maturity. Interest subsidies are required to improve the profitability and cash-flow position for black emerging growers.
- b. Refer to appended [model 1a](#) (interest subsidised) and [model 1b](#) (interest not subsidised) for short-rotation projects (Gum and Wattle). If interest is not subsidised for emerging growers (2.4ha per entity), such schemes only become profitable in year 16. This means that the capital and interest repayments are extended to 6 years after the rotation period. It is unrealistic to expect people to wait this long before the full benefit in the form of a living wage is payable.
- c. Refer to appended [model 2a](#) (interest subsidised) and [model 2b](#) (interest not subsidised) for long-rotation projects (sawlogs). These models are based on a 25-year rotation; 400 cubic metres per hectare at clear felling; an overall price of R325-00 per cubic metre standing at maturity or R125 000 net per hectare standing; income from thinnings covers the cost of pruning and part of annual maintenance. At these (current) sawlog prices this represents the best poverty alleviation model, but requires funding at 2.5 times that of short rotation crop.

Without any interest subsidy being applied (model 2b) this allows drawings of R3 500 per annum (per 2.4ha) from year four onwards, with an additional R61 855 profit on clear felling. With interest subsidy being applied (model 2a), the drawings can be increased to R6 000 per annum, with an additional R97 739 profit on clear felling. This model could work without interest subsidisation, but with the complexities and risk associated with raising such a large investment over a long period, would greatly benefit from some level of interest subsidisation.

- d. For emerging commercial growers (40ha per entity), the interest rate subsidy does not have as dramatic an effect but still reduces the time period to break even, and brings this closer to a full rotation. The effect on the participant is significant in that it brings the full earnings potential several years earlier.

Refer to appended [model 3a](#) (interest subsidised) compared to [model 3b](#) (interest not subsidised), where the break-even increases from 9 years to 12 years.

- e. If the interest is subsidized it will reduce the risk carried by the financing body, and will promote more of the schemes than would otherwise have been the case.
- f. Finally, the need for interest subsidization is demonstrated by the fact that present out-grower schemes include subsidisation of the interest factor. The forest industry has accepted the need both in word and action for interest subsidization to ensure that emerging forest grower schemes succeed.



## 6.5.2 Rationale for interest subsidisation for emerging forest grower schemes:

Existing small forest enterprises in the form of a company or trust are not large enough to access favourable funding in the same manner as large growers (Corporates). In addition, they do not have the means to self-fund B-BBEE initiatives and do not have the resources to carry the interest load on loans over the rotation. The consequence of these shortcomings is that such enterprises will be forced to seek elite BEE partners who are capable of carrying the cost of the investment. This has the effect of undermining the Government's objective of ensuring that ownership transfer is broad-based.

Two models of ownership transfer were considered:

### a. Outright purchase of 25% of equity in enterprise

- The appended model 4a (interest subsidised) and model 4b (interest not subsidised) show that the break-even increases from 11 years to 16 years if interest is not subsidised.
- The implication of this is that the 25 farm workers, who are earning a minimal R1000 per annum each for the first ten years, would now earn R1000 each for 15 years, which stretches the repayment of capital beyond the rotation age.
- The above two models were based on the assumption that the IDC Pro-Job scheme at 5% below prime would be applicable or, failing that, a similar scheme at the same rate would be applicable.
- At present, however, the only funding for this type of project from the IDC is the Pro Forestry scheme at a real rate of return of 2.5%. With the current level of CPI, this translates to an effective 6.5% interest. The break-even for the Pro Forestry scheme would be in year 19 (model 4c) compared to break-even in year 11 with interest subsidy (model 4a).
- If IDC funding is not available, the best commercial rate available is 2,75% below prime and at this interest (model 4d), break-even extends to 24 years, more than two rotations.
- From the above it is clear that without interest subsidisation, the B-BBEE 25% share ownership model cannot work.

### b. Phased transfer of B-BBEE 25% participation in a small company or trust over one rotation (10 years)

An analysis was carried out using this model, and was found to be completely unworkable even with the subsidisation of interest. This model is thus not discussed further.

## 6.6 Motivation for seed funding to develop fire insurance schemes for emerging forestry enterprises

Refer to par. 13.2.1 (e) of the Charter.

There is at present effective plantation fire insurance available, which is currently providing cover for approximately 200,000 hectares of timber. However, there is a need to provide seed capital for the development of a fire insurance scheme for emerging growers, to support 10 000 ha of afforestation annually, over ten years. The seed capital is required to reduce the insurance premium, required to cover expected annual and catastrophic losses, to a more affordable level

for the emerging grower sector. Growers will collectively pool their risk. The seed money will be required during the first 9 years, where after the pool will be big enough to sustain these beneficial premium levels. For such a scheme to be successful, pre-planning and fire risk management are essential. Pre-planning entails the identification, careful consideration and mitigation of fire risks before the trees are even planted. Furthermore, there is a need for ongoing fire risk management after the trees have been planted. Pre-planning and fire risk management are vital to ensure the viability of the afforestation project and to accrue underwriting profits for the benefit of the emerging growers.

## 7. Financial requirements for Forest Sector Transformation

### 7.1 Industry Costs

The financial requirements for implementing the Charter by Industry are outlined in the table below.

Cost item	Cost calculation for Industry	Annual cost to the Forest Industry (R million) <sup>1)</sup>			
		Growing sub-sector	Fibre sub-sector	Other sub-sectors	Total for Sector
Ownership transformation	Cost estimated at 7% of value of industry	42	154	63	259
Skills development	3% of estimated payroll costs	37,5	90	42	169,5
Enterprise Development	3% of NPAT	10,5	42	14,7	67,2
Socio-economic Development	1% of NPAT	3,5	14	4,9	22,4
Charter Council	40% of total cost of Council funding	0,175	0,7	0,245	1,12
B-BBEE verification	Costs unknown				
Total know Costs		93,675	300,7	124,485	519,22
<b>Additional costs:</b>					
<i>Bonus points of ownership</i>	<i>5% higher ownership target</i>	<i>8.4</i>	<i>30.8</i>	<i>12.6</i>	<i>51.8</i>
<i>Bonus points for sector initiatives</i>	<i>0.75% of net profit after tax</i>	<i>2,625</i>	<i>10.5</i>	<i>3,675</i>	<i>16,8</i>

**Note:** <sup>1)</sup> This is a total cost and is spread equally over 10 years to reflect an annual cost

(a) Cost calculation for Industry contribution to B-BBEE Elements of the Scorecard

The following assumptions were made in calculating the contribution required from industry to B-BBEE Elements of the Scorecard:

- i) Benchmark figures for 10 large BEE deals indicate that the cost for 10% BEE shareholding is equal to 3% of the market capitalisation of an enterprise. Market capitalisation is the total value of the issued shares. A sliding scale applies and it is estimated that the net cost to give effect to 25% shareholding would be 7% of the total market capitalisation. The net cost to give effect to 30% shareholding would be just under 8.4% of the total market capitalisation.
- ii) Analysis of available company information (mainly obtained from quoted companies on the JSE) indicates that the market capital value of companies ranges between a ratio 1.0 and 1.3 of total company turnover. This means if a business's turnover is R2 billion its market value would be between R2 billion and R2.6 billion.
- iii) As a general rule of thumb (based on results of quoted JSE companies), net profit before tax is in the region of 10% – 12% of turnover. This means if a company has a turnover of R1 billion, pre-tax profit would be in the region of R100 million to R120 million. Based on a tax rate of 30% (rounded, on the actual company tax rate is 29%), after tax profit then becomes 7% to 8.4% of turnover.
- iv) Employment costs in the South African manufacturing environment account for 20% of total company turnover. This obviously varies with capital-intensive industries at a level of 15% and labour intensive industries as high as 25%. A ratio of 20% of turnover has been applied to estimate the cost of employment in enterprises in the Forest Sector.

The table below summarises the relationships used in calculating the cost applicable to different Scorecard elements.

Financial Factors	Index
▪ Turnover	100
▪ Business value (market capitalisation)	100 – 130
▪ Profit before tax (10%)	10
▪ Profit after tax (7%)	7
▪ Labour cost (20%)	20

These ratios are now applied to the information obtained for the various sectors of the forestry industry, which are:

Sector	Turnover (R billion)	Business Value (R billion)	Profit before tax (R million)	Profit after tax (R million)	Labour Cost <sup>2)</sup> (R million)
Grower sub-sector	5	6	500	350	1 250
Fibre sub-sector	20 <sup>1)</sup>	22 <sup>1)</sup>	2 000	1 400	3 000
Sawmilling and other	7	9	700	490	1 400
Forest Sector Total	32	37	3 200	2 240	5 600

Notes: 1) LHA estimates

2) Different ratios assumed, i.e. 25% for growers, 15% for fibre and 20% for sawmilling

Estimates of aggregate turnover of Enterprises in each sub-sector are as follows

a. Grower sector – annual harvest (2005) of 20 million m<sup>3</sup> @ R250/m<sup>3</sup> delivered = R5 billion

b. Fibre sector

▪ Pulp and Paper - PAMSA estimate: R14 billion

▪ Board products: R3 billion

▪ Chip exports: R3 billion

c. Sawmilling and other

▪ Sawmilling (2,7 million m<sup>3</sup> @ R1 600/m<sup>3</sup>): R4,3 billion

▪ Mining timber (0,8 million m<sup>3</sup> @ R1 200/m<sup>3</sup>): R1,0 billion

▪ Charcoal: R0,5 billion

▪ Poles (800 000 m<sup>3</sup> @ R1 000/m<sup>3</sup>): R0,8 billion

▪ Matches, other: R0,4 billion

(b) Cost calculation for the Forest Sector Charter Council

The cost calculation is based on:

- i) An estimated annual recurrent cost of R2 786 000 and a once-off cost of R250 000 over a 10-year period as outlined in the table below.
- ii) A 40:60% funding split between industry and government.
- iii) Sub-sector distribution of cost based on turnover

**DRAFT ANNUAL BUDGET FOR FOREST SECTOR CHARTER COUNCIL**

<b>Budget Items</b>			
<b>Salaries and Staff Costs</b>	<b>Number</b>	<b>Rate</b>	<b>Annual Rand</b>
Chief Executive Officer	1		680 000
Senior Researcher	1		300 000
Administration Manager	1		200 000
Administration Clerk	1		80 000
Office Assistant	1		55 000
Independent Chairperson of the Board	1	R2400/day x 30 days	72 000
Board members requiring financial assistance	9	R1 900/day x 12 days	205 200
<b>Sub-Total</b>			<b>R1 592 200</b>
-			
<b>Other Operating Expenses</b>	<b>No of Item</b>	<b>Cost Rate</b>	<b>Annual Rand</b>
Accounting fees			20 000
Annual report			50 000
Bank charges			8 000
Office equipment (leased <sup>1)</sup> )	5	R6 000	30 000
Consultancy fees	1	-	500 000
Entertainment			30 000
I.T. expenses			50 000
Insurance			15 000
Motor vehicle expenses <sup>2)</sup>	50 000 km	R3/km	150 000
Office rental	200 m <sup>2</sup>	R40/m <sup>2</sup> /m	80 000
Stakeholder liaison)			100 000

Photocopying, printing and stationery			25 000
Publicity, circulars, etc			50 000
Staff travel		R4 000/ea	80 000
Flights	24 trips	R2000/trip	48 000
Accommodation and meals	24 nights	R600/night	14 400
Car Hire	24 car days	R300/day	7 200
Council travel (Govt and Industry Associations pay for themselves)	48 flights	R2000/trip	
Flights (6 meetings X 8 flights)	6 meetings	R8000/meeting	96 000
Accommodation and meals	48 car hires	R300/day	48 000
Car hire			14 400
Telecommunication			65 000
<b>Sub-Total</b>			<b>R1 480 600</b>
<b>TOTAL BUDGET</b>			<b>R3 072 800</b>

**Notes:** 1) Office establishment costs (once-off) are excluded. The following should be budgeted for:

- Office furniture	=	R120 000-00
- Computers and IT infrastructure	=	R100 000-00
- Boardroom, etc	=	<u>R 30 000-00</u>
	=	R250 000-00

2) Assume no company vehicles, only re-imburement for own vehicle travel expenses

## 7.2 Government Costs

The financial requirements for implementing the Charter by Government are outlined in the table below. The actual budget available will be subject to Parliamentary approval.

### (a) Cost calculation for Government contribution to Ownership Transformation

The calculation of Government costs to effect ownership transformation relates to the rehabilitation and transfer of the remaining DWAF plantations. This amounts to R716 million over a ten-year period, based on the following:

- i) Rehabilitation of 46 000 ha plantations at a total cost of R66 million over a period of five years.
- ii) Cost of transfer (transfer costs facilitation support and establishment of legal entities) at R10 million per transfer package for 20 packages over the 10-year period.
- iii) Post transfer support to new owners at R90 million/year from year 6-10.
- iv) The interest rate subsidisation for 25% black equity ownership in 300 000ha of "small" forestry

COST ITEM	COSTS (R MILLIONS)										Total	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10		
<b>Ownership transformation</b>												
• Rehabilitation of 46 000 ha DWAF plantations	13.20	13.20	13.20	13.20	13.20	0.00	0.00	0.00	0.00	0.00	0.00	66.00
• Transfer costs related DWAF plantations	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	200.00
• Post transfer support to new landowners	0.00	0.00	0.00	0.00	0.00	90.00	90.00	90.00	90.00	90.00	90.00	450.00
• Interest rate subsidisation for sale of equity in small forestry enterprises	14.80	14.80	14.80	14.80	14.80	14.80	14.80	14.80	14.80	14.80	14.80	148.00
<b>Skills development</b>												
• 3% of estimated payroll costs for DWAF forestry	5.87	5.87	5.87	5.87	5.87	5.87	5.87	5.87	5.87	5.87	5.87	58.70
<b>Enterprise development</b>												
• Interest rate subsidisation for new afforestation	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	125.00
• Seed capital for the development of fire insurance for emerging growers	1.0	1.4	1.7	2.5	2.6	2.5	2.1	1.5	0.7	0.0	0.0	16.00
• Capacity building and business support for emerging black entrepreneurs	22.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	225.00
• Expediting the afforestation authorisation process	2.14	2.14	2.14	2.14	2.14	0.00	0.00	0.00	0.00	0.00	0.00	10.70
• Securing land rights and land holding structures for new afforestation & transfer of ownership and lease rentals on State Forest land <i>(depends on DLA capacity)</i>	??	??	??	??	??	??	??	??	??	??	??	??
• VFW programmes to supporting access to raw material and create black enterprise development opportunities associated therewith	6.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	48.75
<b>Industry specific initiatives</b>												
• R&D to support the development of a sawlog growing strategy and programme	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	50.00
• Initiatives to manage control and eradicate forest pests and diseases	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	50.00
• Initiatives to manage control and reduce forest fires	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	70.00
<b>Charter Council</b>												
• 60 % of total costs	1.994	1.844	1.844	1.844	1.844	1.844	1.844	1.844	1.844	1.844	1.844	18.59
<b>Total costs</b>	<b>116.73</b>	<b>116.00</b>	<b>116.28</b>	<b>117.06</b>	<b>117.22</b>	<b>191.71</b>	<b>191.36</b>	<b>190.78</b>	<b>189.94</b>	<b>189.26</b>	<b>189.26</b>	<b>1536.34</b>

enterprises amounts to R920 million over 10 years, based on R237 443 per 60ha transferred (R3 957/ha) - refer to Model 4a, par. 6.5.2a. It is further assumed that half of the emerging forestry enterprises would not participate in such an arrangement. Government contribution to interest subsidisation is therefore based on 25% equity ownership of 150 000ha, which amounts to R148 million.

(b) Cost calculation for Government contribution to Skills Development

The cost of skills development is based on 3% spend of payroll by DWAF, based on a forestry personnel budget of R195 552 000 in 2006-07 (approximately 4 200 posts)

(c) Cost calculation for Government contribution to Enterprise Development

This is based on the following calculations and assumptions:

- i) Interest rate subsidisation for 100 000ha new afforestation over 10-years is calculated at R6 234 per 2.4ha family farm (refer to Model 1a, par. 6.5.1b.), which amounts to R2 597/ha, or R95 573 per 50ha commercial farming operation (refer to Model 3a, par. 6.5.1d.), which amounts to R2 389/ha. At an average cost of R2 500/ha this amounts to R250 million required for the 100 000ha. It is further assumed that 50% of this cost will be borne by the private sector either as part of their enterprise development contributions or linked to contractual agreements for the supply of raw material. Government contribution to interest rate subsidisation therefore amounts to R125 million over 10 years.
- ii) The cost of providing seed capital for developing fire insurance schemes for emerging growers is estimated at R16 million to support 10 000 ha of afforestation per year for ten years. This amount is required to reduce the premium of insurance for expected annual and catastrophic losses to an affordable insurance premium. It is estimated that the seed money will be required during the first 9 years, where after the pool will be big enough to require a premium of under 1.2% to sustain the pool.
- iii) The cost of capacity building and business support for emerging black entrepreneurs is based on 15% of investment costs in new afforestation. The investment costs is estimated at R15 000 per ha for 10 000ha per annum. This amounts to R22.5 million per annum. This excludes capacity building and business support for emerging growers that will benefit from the transfer of state forest land which is already covered in the cost calculation presented in par. (a) above. It is recognised that support for emerging entrepreneurs goes beyond new afforestation. At the same time account has to be taken of the fact that that forest enterprises will also contribute to capacity building and business support through enterprise development spend.
- iv) The cost of expediting the afforestation authorisation process [over and above expenses normally associated with SFRA (forestry) water use licensing] is estimated at R10.7 million over 5 years. This based on the following:
  - a. Additional SEA and area mapping studies: KwaZulu-Natal, Eastern Cape and Mpumalanga = R3.0 million
  - b. Streamlining support: R500 000 per annum over 5 years = R2.5m
  - c. Regional SFRA units' additional operating costs (for four forestry regions): R200 000/annum per region for 5 years = R4.0m
  - d. National SD: SFRA's additional operating costs: R200 000 p.a. for (5 years) = R1.0m
  - e. Developing the various MOUs on afforestation authorization = R200 000.



- v) The cost of securing land rights and landholding structures for new afforestation on communal land and the transfer of ownership and lease rentals on State Forestland still needs to be calculated by DLA.

**Note: the cost of settling restitution claims on forestland has not been included as this is an existing statutory obligation of State.**

- vi) The cost of Working for Water (WfW) Programmes to support access to raw material supply through the removal of alien invasive plants and to create associated black enterprise development opportunities is R48.75 million over 10 years. This is based on the following:
- a. Extension programme to disseminate information on the availability of raw material sources: R350 000 establishment cost per region and R100 000 operating cost per region for 9 years thereafter x 5 regions = R6.25 million
  - b. Programme to promote and provide incentives for the development non invasive timber resources: R2 million per annum for 10 years = R20 million
  - c. Programme to promote the development of B-BBEE enterprises linked to the utilisation of wood products from the clearing of invasive alien trees: R450 000 per annum per region for 10 years x 5 regions = R22.5 million

(d) Cost calculation for Government contribution to Industry Specific Initiatives

This includes the following:

- i) The cost of R&D to support the development of a sawlog growing strategy and programme. The estimated cost is R5 million per annum.
- ii) The costs of initiatives to manage, control, reduce and where possible eradicate the threats and infestation levels of pests and diseases in timber plantations. The estimated cost is R5 million per annum.
- iii) The cost of initiatives to manage, control and reduce the risk of forest fires. The estimated cost is R7 million per annum and is based on the following:
  - a. Fire awareness campaigns at R3 million per annum
  - b. Financial assistance to Fire Protection Associations channelled through municipal fire services at R5 million per annum.

## 8 Key Outcomes of the Forest Sector Transformation Process

Based on the Sector commitments in the Charter, key outcomes of the Forest Sector transformation process can be summarised as follows:

- (a) A weighted black ownership profile of 30% for the Sector as a whole within 10-years.
- (b) A weighted black women ownership profile of 12.6% for the Sector as a whole within 10-years.
- (c) Afforestation of a minimum of 100 000 ha net increase in planted area over the next ten years, mostly in the Eastern Cape and KwaZulu-Natal through black owned forestry enterprises. This will underpin further growth in the timber processing, value-adding and marketing sector.

- (d) Increased participation of black people in forestry value adding industries, such as sawmilling, paper production and charcoal production.
- (e) Appropriate funding mechanisms identified to support forest enterprise development involving both industry and state funding.
- (f) Annual expenditure by the industry of at least R67.2 million in enterprise development. This will result in more than 390 new jobs and 30 to 50 new small businesses annually<sup>1</sup>.
- (g) Rehabilitation and transfer of 46 000 ha state plantations to black communities.
- (h) Annual spending on skills development sufficient to add about 1 750 new learners<sup>2</sup> into the tertiary education system, and more than double this number of other trainees and learners at lower educational levels.
- (i) Concerted strategy to develop black skills in the Forest Sector to underpin greater employment equity in and black management control of the Forest Sector.
- (j) Effective and representative structures for the forest industry. This includes the establishment of representative organisations for sawmillers and charcoal producers as well as improved levels of organisation and representation of workers throughout the Sector.
- (k) Industry Codes of Conduct that will ensure good practices in contracting and employment throughout the Forest Sector
- (l) A sawlog growing strategy and programme that will address the looming shortage of sawlog supply in the country and ensure sustainability of the local sawlog plantation industry.

Since the Forest Sector has a rural base, these outcomes would make a substantial contribution to poverty reduction and rural development in the country. Furthermore, the transformation process is likely to inject considerable energy and innovation into the Forest Sector and secure its potential for high growth.

**<sup>1</sup> Figures are based on new job creation costs of R100 000 in the growing sector and R200 000 in the downstream value-adding sectors, and 10 employees per SME.**

**<sup>2</sup> Based on an annual of R100 000 per student; education in all disciplines, e.g. forestry, marketing, commerce, technical, legal, etc.**

## 9 Charter Implementation Plan

The Implementation Plan outlined below deals with the implementation of the instruments to support the B-BBEE targets and not to the implementation of the Scorecard itself. The latter is the responsibility of each individual enterprise in the Forest Sector.

Each undertaking listed in the Implementation Plan needs to be broken down further into steps linked to milestones and timeframes. This must be done by the parties listed as being responsible for the undertakings and must be reported on to the Charter Council.

Appendix: Forestry Funding Models

**PLAN FOR THE IMPLEMENTATION OF INSTRUMENTS TO SUPPORT B-BBEE TARGETS  
FOR THE FOREST SECTOR**

Requirement	Undertakings	Responsibilities	Target date <sup>1</sup>
<b>1. Forest Sector Charter Council</b>			
Establishment of the Council	1.1 Appointment of Sector representatives to serve on the Council	Government (DWAF, DLA and DTI), Industry and labour	2 weeks <sup>2</sup>
	1.2 Appointment of a Chief Executive Officer for the Council	Government (DWAF) in consultation with stakeholders	1 month
	1.3 Appointment of staff & procurement of offices and equipment	CEO for the Council	3 months
Establishment of systems/procedures for the Council	1.3 Finalise funding arrangements for Charter Council from Government and Industry	Government (DWAF) and Industry	2 weeks
	1.4 Adoption of a Constitution for the Council	Charter Council	4 months
	1.5 Preparation of annual business plan and budget for the Council	CEO for the Council	4 months
<b>2. Instruments to support Ownership Targets</b>			
Access to funds for purchase of equity ownership & sale of business assets	2.1 Refer to undertakings 5.3 to 5.5 hereunder		
Restructuring of State forest assets in support of B-BBEE targets	2.2 Role of SAFCOL, including any possible role in forestry development, reviewed	Government (DWAF & DPE)	31 March 2007
	2.3 Plan for the restructuring of remaining (Category B and C) state plantations, in accordance with pro-poor development agenda and broad-based black economic empowerment, operational	Government (DWAF with DLA)	1 year
	2.4 Confirm land-holding rights and establish land-holding structures for state forestland transfers – refer to undertakings 5.11 & 5.12 hereunder	Government (DLA with DWAF)	5 years
<b>3. Instruments to support Skills Development Targets</b>			
Skills development strategy/plan for the Forest Sector	3.1 Skills development strategy /plan for the Forest Sector operational. To include targets and timelines to: <ul style="list-style-type: none"> <li>Strengthen the national framework for skills development.</li> <li>Strengthen sector capacity for skills development delivery.</li> <li>Promote skills development opportunities for youth and new entrants in the Forest Sector.</li> </ul>	Government (DWAF & DoL), SAQA, industry and labour, through FIETA	1 year
	3.2 Ensure that the Skills development strategy /plan is based on a clearly defined transformation and growth strategy for the Forest Sector	Government (DWAF & DTI) and industry	1 year
	3.3 Ensure that the Skills development strategy /plan links with the various PGDS' and NSF funded projects to support the PGDS'	Government (DWAF) and industry	1 year
	3.4 Identify specific skills development projects for which business plans will be developed and submitted through FIETA to the NSF for funding	Government (DWAF), industry and labour, through FIETA	1 year
	3.5 DWAF fully participates as a contributing stakeholder in all FIETA activities	DWAF	6 months
	3.6 Ensure that when the 2005-2010 National Skills Development Strategy (NSDS) is updated, special attention is given to skills development requirements to support B-BEE sector targets	DoL	Unknown

Requirement	Undertakings	Responsibilities	Target date <sup>1</sup>
<b>4. Instruments to support Preferential Procurement Targets</b>			
Ensure equitable and sustainable contracting and employment practices through Industry Codes of Conduct for the Forest Sector	4.1 Codes of Conduct for Forestry Contracting developed	Grower and Contracting Industry & Labour	1 year
	4.2 Code of Conduct for Emerging Forest Grower Schemes developed	Grower and Fibre Industry	1 year
	4.3 Code of Conduct for Charcoal Contracting developed	Charcoal industry & Labour	1 year
	4.4 Code of Conduct for Employment Practices developed	Forest industry & Labour	1 year
<b>5. Instruments to support Enterprise Development Targets</b>			
Access to funds and financial services for emerging black entrepreneurs	5.1 Diversity of enterprise ownership and financing models developed and available for implementation	Industry	1 year
	5.2 The development of accessible and cost-effective fire insurance schemes for emerging growers promoted (linked to 5.6 below)	Industry	1 year
	5.3 Framework Agreements negotiated with banks and other funding institutions. (Framework agreements negotiated under the Financial Services Charter)	Industry	1 year
	5.4 Framework Agreements negotiated with donor and public funding institutions to access funding instruments available within these institutions	Government (DWAF in consultation with DLA, DoA, Land Bank, DTI, IDC and others)	1 year
	5.5 Public funding mechanism to fund and/or subsidise the interest burden in developing emerging Forest Sector enterprises investigated	Government (DWAF with Treasury)	1 year
	5.6 Public funding mechanism to provide seed funding for the development of fire insurance schemes for emerging growers investigated	Government (DWAF with Treasury)	1 year
Capacity building and business support for emerging black entrepreneurs	5.7 Continued capacity building and business support for emerging black entrepreneurs by Industry	Industry (cooperatives and companies)	Ongoing
	5.8 Service delivery agreement for forest enterprise development support negotiated with existing enterprises and development agencies operational for key forestry areas in the country	Government (DWAF with DLA and DTI), in consultation with Industry	18 months
Expedite the water use authorisation process for afforestation and paper & sawmilling facilities	5.9 Streamline and expedite afforestation licensing procedures to facilitate the establishment of a minimum of 100 000 ha net increase in planted area over ten years, based on a minimum target average of 10 000 ha per annum (specific measures hereunder listed in the Charter Companion)	Government (DWAF in consultation with DEAT, DLA, DoA and Provincial Government)	1 year
	5.10 Published set of procedures and timeframes for mill license applications	Government (DWAF in consultation with DEAT and Provincial Government)	6 months
	5.11 Licensing system under the National Water Act, 1998 and the National Forests Act, 1998 applied to promote the objectives of the Charter	Government (DWAF)	On effective date of the Charter

Requirement	Undertakings	Responsibilities	Target date <sup>1</sup>
Secure land rights and land holding structures on communal land for new afforestation and restructuring of state forest assets	5.12 Memorandum of Understanding (MOU) established between DWAF, DLA and provincial & local government to ensure the continued and sustainable use of existing state plantations areas for timber production and to provide for post settlement support to the new owners of such land	Government (DWAF with DLA, Provincial Government and Municipal Government)	1 year
	5.13 Necessary legislative framework, budget and programme established to enable communities to confirm their tenure rights and establish land holding structures for the transfer of existing state plantation areas <sup>3</sup> and afforestation on communal land	Government (DLA with DWAF, Provincial Government and Municipal Government)	1 year
	5.14 Programme implemented that secure tenure rights and establish land-holding structures for 50% of all new afforestation projects in the Eastern Cape and 90% of all state plantation areas transferred	Government (DLA with DWAF, Provincial Government and Municipal Government)	5 years
Emerging growers able to participate in forestry certification	5.15 Appropriate forestry certification methodologies for emerging growers developed	Industry and Government (DWAF)	18 months
Access to raw material supply for small scale charcoal producers and domestic fuelwood	5.16 Policy and services in place to facilitate raw material supply and associated black enterprise development opportunities through the WfW programme (specific measures hereunder listed in the Charter)	Government (DWAF)	1 year
<b>6. Instruments to support Industry Specific Initiatives</b>			
Ensure that Forest Sector development forms part of integrated provincial and municipal planning	6.1 Forest development needs and opportunities are adequately incorporated in provincial and municipal planning processes (PGDS' & IDP's)	Government (DWAF)	1 year
	6.2 Industry participation in provincial and municipal planning process through the Department of Trade and Industry supported Regional Industry Strategies and Wood Clusters initiative: <ul style="list-style-type: none"> <li>o Eastern Cape, KZN and Limpopo</li> <li>o Other forestry regions</li> </ul>	Industry	2 years 3 years
Secure and adequate supplies of raw material for processing enterprises	6.3 Agreement on a Saw log growing strategy and programme for the country (specific issues to be addressed listed in the Charter)	Gov (DWAF) & Industry	1 year
	6.4 Initiatives to manage, control, reduce and where possible eradicate the threats and infestation levels of pests and diseases in timber plantations (specific measures hereunder listed in the Charter Companion)	Industry & Government (DWAF and DoA)	1 year
	6.5 Initiatives to manage, control and reduce the risk of forest fires (specific measures hereunder listed in the Charter Companion)	Industry & Government (DWAF)	1 year

Requirement	Undertakings	Responsibilities	Target date <sup>1</sup>
Transport infrastructure development in support of forestry development	6.6 Incorporate infrastructure requirements into Provincial Growth and Development Strategies and Municipal Integrated Development Plans	Government (DWAF with DoT, Provincial Government and Municipal Government)	1 year
	6.7 Define the transport infrastructure needs for forest development, for inclusion in the relevant Provincial Freight Transport Plans and Local Integrated Transport Plans for municipalities: <ul style="list-style-type: none"> <li>o Eastern Cape, KZN and Limpopo</li> <li>o Other forestry regions</li> </ul>	Government (DWAF with DTI) and Industry	2 years 3 years
	6.8 Industry participation in provincial Freight Task Groups and Corridor Freight Committees: <ul style="list-style-type: none"> <li>o Eastern Cape, KZN and Limpopo</li> <li>o Other forestry regions</li> </ul>	Industry	2 years 3 years
	6.9 Industry participation in Regional Industry Strategies and Wood Cluster initiatives <ul style="list-style-type: none"> <li>o Eastern Cape, KZN and Limpopo</li> <li>o Other forestry regions</li> </ul>	Industry	2 years 3 years
Remove constraint to black enterprise development in the fibre sub-sector	6.10 Request International Trade Administration Commission (ITAC) to commit to do more, within its legal constraints, to provide greater protection for South African producers from foreign dumpers	Government (DTI)	1 year
Access to information, appropriate technology and innovation to support B-BBEE and enterprise development	6.11 Process established to develop of a Forest Sector research strategy with clearly outlined responsibilities, funding mechanisms and timelines	Government (DWAF) with other sector stakeholders	6 months
Expedite Restitution claims on forestland to ensure the continued and sustainable use of plantation areas for timber production	6.12 A coordinated strategy for the settlement of land claims developed that will ensure the continued and sustainable use of existing state plantation areas for timber production, and provide for post-settlement support to the new owners of such land.	CRLR, DWAF, Industry and other sector stakeholders	6 months
	6.13 Expedite the settlement of land claims: settle 90% of all land claims on forestland	CRLR	2008
Strengthening representative industry structures	6.14 Equitable representation of emerging growers in industry structures, as well as improved small grower organisation at the local and provincial levels	Forestry industry	2 years
	6.15 Strengthened and representative the forestry contractors' organization	Forestry Contractors industry	2 years
	6.16 An organisation representing all sawmillers in the country established	Sawmilling industry	2 years
	6.17 An organisation representing all charcoal producers in the country established	Charcoal Production industry	2 years
	6.18 Improved levels of organisation and representation of workers throughout the Sector	Labour (trade unions)	2 years
	6.19 Enhanced co-operation amongst sub-sectors of the Forest Industry through coordination and interaction between their representative organisations	All sub-sectors of the Forest Industry	2 years

Requirement	Undertakings	Responsibilities	Target date <sup>1</sup>
Continued viability of the timber growing industry	6.20 Engagement with local government structures in an attempt to provide relief from property rates where this negatively impacts on the sustainability of timber growing	Government (DWAF) with SALGA and individual municipalities	1 year

### Model 1a: Small Scale emerging growers

Allocation of 2.4 Ha of land per person or

family

2.4Ha undeveloped land @ R800/Ha: land available under restitution or tenure reform, or paid for by LRAD grant

Living wage covered by planting costs in first three years, thereafter advanced till revenue starts.

Interest is assumed to be subsidised

Prime Overdraft Rate: 10.50%

IDC Rate: 5.50%  
IDC Effective

Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Revenue	Living Wage	Interest	Cumulative Costs	Interest Cost Subsidised
1			0	2,984	
2			0	6,600	168
3			0	10,884	614
4		1,000	0	13,484	761
5		1,000	0	15,812	892
6		1,000	0	17,869	1,008
7		1,000	0	19,973	1,127
8		1,000	0	22,077	1,245
9	-20,000	1,000	0	4,181	236
10	-6,000	1,000	0	3,005	170
11	-6,000	1,000	0	245	14
12	-6,000	3,419	0	0	
13	-6,000	3,888	0	0	
14	-6,000	3,888	0	0	
15	-6,000	3,888	0	0	
16	-6,000	3,888	0	0	
17	-6,000	3,888	0	0	
18	-6,000	3,888	0	0	
19	-6,000	3,888	0	0	
20	-6,000	3,888	0	0	
<b>Totals</b>	<b>-86,000</b>		<b>0</b>	<b>117,113</b>	<b>6,234</b>

#### SUMMARY:

- 1) Land available at no cost
- 2) 2.4 Hectres per person
- 3) Interest cost subsidised
- 4) Insurance at 15% value

#### RESULT:

Participation share of R1 000 per person per annum for 11 years  
Participation share of R3 900 per person per annum thereafter



## Model 1b: Small Scale emerging growers

### Interest not subsidised

Allocation of 2.4 Ha of land per person or family  
 2.4Ha undeveloped land @ R800/Ha: land available under restitution or tenure reform, or paid for by LRAD grant

Living wage covered by planting costs in first three years,

Interest is calculated at IDC rates of prime less 5%

Prime Overdraft

Rate: 10.50% IDC Rate: 5.50%  
 IDC Effective Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Living Wage	Interest	Cumulative Costs
1	2,984			0	2,984
2	3,616			168	6,768
3	4,284			382	11,434
4	1,600		1,000	645	14,679
5	1,328		1,000	828	17,835
6	1,057		1,000	1,006	20,898
7	1,104		1,000	1,179	24,181
8	1,104		1,000	1,364	27,649
9	1,104	-20,000	1,000	1,560	11,313
10	3,824	-6,000	1,000	638	10,775
11	2,240	-6,000	1,000	608	8,623
12	2,336	-6,000	1,000	486	6,445
13	2,112	-6,000	1,000	364	3,921
14	2,112	-6,000	1,000	221	1,254
15	2,112	-6,000	2,563	71	0
16	2,112	-6,000	3,888	0	0
17	2,112	-6,000	3,888	0	0
18	2,112	-6,000	3,888	0	0
19	2,112	-6,000	3,888	0	0
20	2,112	-6,000	3,888	0	0
<b>Totals</b>	<b>43,476</b>	<b>-86,000</b>		<b>9,520</b>	<b>168,758</b>

#### SUMMARY:

- Land available at no
- 1) cost
- 2.4 Hectares per
- 2) person
- 3) Interest cost included
- Insurance at 1% of
- 4) value

#### RESULT:

Participation share of R1 000 per person per annum for 14 years

Participation share of R3 900 per person per annum thereafter

## Model 2a: Small Scale emerging growers (Sawlogs)

### Interest subsidised

Calculation is based on 2.4 Ha planted in full in year 0

Assume land available under restitution or tenure reform, or paid for by LRAD grant

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft

Rate: 10.50% IDC Rate: 5.50%

IDC Effective Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Drawings	Revenue	Interest	Cumulative Costs	Insurance Value / Ha	Insurance Value	Cost vs Insur. Value
1	10,478	0		0	10,478	4,397	10,553	75
2	3,362	0		0	13,840	6,718	16,123	2,283
3	3,437	0		0	17,277	8,806	21,134	3,857
4	2,558	2,000		0	21,835	11,090	26,616	4,781
5	2,650	2,000		0	26,485	13,621	32,690	6,205
6	2,743	4,000		0	33,228	16,168	38,803	5,575
7	2,854	4,000		0	40,082	19,250	46,200	6,118
8	2,966	6,000		0	49,048	22,371	53,690	4,642
9	3,089	8,000		0	60,137	25,811	61,946	1,809
10	3,226	8,000	-9,648	0	61,715	29,603	71,047	9,332
11	3,242	8,000		0	72,957	30,055	72,132	-825
12	3,403	8,000		0	84,360	34,537	82,889	-1,471
13	3,571	8,000		0	95,931	39,220	94,128	-1,803
14	3,758	8,000	-19,536	0	88,153	44,382	106,517	18,364
15	3,799	8,000		0	99,952	45,566	109,358	9,406
16	4,010	8,000		0	111,962	51,376	123,302	11,340
17	4,241	8,000		0	124,203	57,780	138,672	14,469
18	4,495	8,000	-34,848	0	101,850	64,839	155,614	53,764
19	4,490	8,000		0	114,340	64,732	155,357	41,017
20	4,771	8,000		0	127,111	72,500	174,000	46,889
21	5,078	8,000		0	140,189	81,063	194,551	54,362
22	5,419	8,000		0	153,608	90,500	217,200	63,592
23	5,791	8,000		0	167,399	100,882	242,117	74,718
24	6,202	8,000		0	181,601	112,285	269,484	87,883
<b>Totals</b>	<b>106,293</b>	<b>154,000</b>	<b>-358,032</b>	<b>0</b>				

### SUMMARY:

1) Land available at no cost

2) 2.4 Hectares per person

3) Interest cost subsidised

4) Insurance at 1.5% of value

No Participation share in first three years

Phased participation share from R2 000 to R6 000 p.a. in year 8

Participation share of R8 000 p.a. thereafter till harvesting in year 25

Final surplus payment of R97 739 in year 25

## Model 2b: Small Scale emerging growers (Sawlogs)

### Interest not subsidised

Calculation is based on 2.4 Ha planted in full in year 0

Assume land available under restitution or tenure reform, or paid for by LRAD grant

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft

Rate: 10.50% IDC Rate: 5.50%

IDC Effective Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs		Revenue	Interest	Cumulative Costs	Insurance Value / Ha	Insurance Value	Cost vs
	Incurred	Drawings						Insur. Value
1	10,478			0	10,478	4,397	10,553	75
2	3,362			591	14,431	6,718	16,123	1,692
3	3,437			814	18,682	8,806	21,134	2,452
4	2,558	1,000		1,054	23,294	11,090	26,616	3,322
5	2,650	1,000		1,314	28,258	13,621	32,690	4,432
6	2,743	2,000		1,594	34,595	16,168	38,803	4,208
7	2,854	3,500		1,951	42,900	19,250	46,200	3,300
8	2,966	3,500		2,420	51,786	22,371	53,690	1,904
9	3,089	3,500		2,921	61,296	25,811	61,946	650
10	3,226	3,500	-9,648	3,458	61,832	29,603	71,047	9,215
11	3,242	3,500		3,488	72,062	30,055	72,132	70
12	3,403	3,500		4,065	83,030	34,537	82,889	-141
13	3,571	3,500		4,684	94,785	39,220	94,128	-657
14	3,758	3,500	-19,536	5,347	87,854	44,382	106,517	18,663
15	3,799	3,500		4,956	100,109	45,566	109,358	9,249
16	4,010	3,500		5,647	113,266	51,376	123,302	10,036
17	4,241	3,500		6,389	127,396	57,780	138,672	11,276
18	4,495	3,500	-34,848	7,186	107,729	64,839	155,614	47,885
19	4,490	3,500		6,077	121,796	64,732	155,357	33,561
20	4,771	3,500		6,870	136,937	72,500	174,000	37,063
21	5,078	3,500		7,724	153,239	81,063	194,551	41,312
22	5,419	3,500		8,644	170,802	90,500	217,200	46,398
23	5,791	3,500		9,635	189,728	100,882	242,117	52,389
24	6,202	3,500		10,702	210,132	112,285	269,484	59,352
25	6,660	3,500	-294,000	11,853	-61,855	125,000	300,000	361,855
<b>Totals</b>	<b>106,293</b>	<b>70,500</b>	<b>-358,032</b>	<b>119,384</b>				

**SUMMARY:** 1) Land available at no cost 2) 2.4 Hectares per person  
3) Interest cost included 4) Insurance at 1.5% of value

**RESULT:** No Participation share in first three years  
Phased participation share from R1 000 to R2 000 p.a. in year 6  
Participation share of R3 500 p.a. thereafter till harvesting in year 25  
Final surplus payment of R61 855 in year 25

## Model 3a: New Commercial growers

### Interests subsidised

Single Family Allocation: LRAD Grant funding 2 x R30 000

50Ha undeveloped land @ R800/Ha

**Assume 40Ha suitable for forestry**

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft

Rate: 10.50% IDC Rate: 5.50%  
IDC Effective

Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Living Wage	Interest	Cumulative Costs	Interest Cost Subsidised
1	51,465			0	51,465	
2	62,931			0	114,396	2,903
3	74,402			0	188,798	6,453
4	29,067		3,000	0	220,865	10,650
5	23,734		3,000	0	247,599	12,459
6	18,400		3,000	0	268,999	13,967
7	18,400		3,000	0	290,399	15,174
8	18,400		3,000	0	311,799	16,381
9	18,400	-333,325	3,126	0	0	17,588
10	63,732	-100,000	36,268	0	0	
11	37,333	-100,000	62,667	0	0	
12	38,933	-100,000	61,067	0	0	
13	35,200	-100,000	64,800	0	0	
14	35,200	-100,000	64,800	0	0	
15	35,200	-100,000	64,800	0	0	
16	35,200	-100,000	64,800	0	0	
17	35,200	-100,000	64,800	0	0	
18	35,200	-100,000	64,800	0	0	
19	35,200	-100,000	64,800	0	0	
20	35,200	-100,000	64,800	0	0	
<b>Totals</b>	<b>736,797</b>	<b>-1,433,325</b>		<b>0</b>		<b>95,573</b>

#### SUMMARY:

- 1) Land available for poverty alleviation or paid for by LRAD grant
- 2) 40 Hectares per two-person family
- 3) Interest cost subsidised
- 4) Insurance at 1% of value

#### RESULT:

Wages covered by planting costs in first three years

Participation share of R3 000 per annum up to break-even in year 9

Participation share of R64 800 per annum thereafter

## Model 3b: New Commercial growers

### Interests not subsidised

Single Family Allocation: LRAD Grant funding 2 x R30 000

50Ha undeveloped land @ R800/Ha

#### Assume 40Ha suitable for forestry

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft Rate: 10.50%

IDC Rate: 5.50%  
5.64%

IDC Effective Rate:

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Living Wage	Interest	Cumulative Costs
1	51,465				0
2	62,931			2,903	117,299
3	74,402			6,617	198,318
4	29,067		3,000	11,187	241,572
5	23,734		3,000	13,627	281,933
6	18,400		3,000	15,903	319,236
7	18,400		3,000	18,007	358,643
8	18,400		3,000	20,230	400,273
9	18,400	-333,325	3,000	22,579	110,927
10	63,732	-100,000	3,000	6,257	83,916
11	37,333	-100,000	3,000	4,734	28,983
12	38,933	-100,000	30,449	1,635	0
13	35,200	-100,000	64,800	0	0
14	35,200	-100,000	64,800	0	0
15	35,200	-100,000	64,800	0	0
16	35,200	-100,000	64,800	0	0
17	35,200	-100,000	64,800	0	0
18	35,200	-100,000	64,800	0	0
19	35,200	-100,000	64,800	0	0
20	35,200	-100,000	64,800	0	0
<b>Totals</b>	<b>736,797</b>	<b>-1,433,325</b>		<b>123,679</b>	

#### SUMMARY:

- 1) Land available for poverty alleviation or paid for by LRAD grant
- 2) 40 Hectares per two-person family
- 3) Interest cost included
- 4) Insurance at 1% of value

#### RESULT:

Wages covered by planting costs in first three years

Participation share of R3 000 per annum up to break-even in year 12

Participation share of R64 800 per annum thereafter

## Model 4a: 25% BEE equity transfer of exist. plantations

### Interests subsidised & no land acquisition grant

Average Medium Grower Farm: 240Ha under timber in rotation

25 Farm Workers Allocation: Assume no LRAD Grant funding

#### Purchase of 25% share (60Ha) at R12 500/Ha

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft

Rate: 10.50%      IDC Rate: 5.50%  
 IDC Effective  
 Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Participation Share	Interest	Cumulative Costs	Interest Cost Subsidised
0	750,000			0	750,000	
1	48,000	-150,000	25,000	0	673,000	42,306
2	50,400	-150,000	25,000	0	598,400	37,962
3	52,800	-150,000	25,000	0	526,200	33,754
4	52,800	-150,000	25,000	0	454,000	29,682
5	52,800	-150,000	25,000	0	381,800	25,609
6	52,800	-150,000	25,000	0	309,600	21,537
7	52,800	-150,000	25,000	0	237,400	17,464
8	52,800	-150,000	25,000	0	165,200	13,391
9	52,800	-150,000	25,000	0	93,000	9,319
10	52,800	-150,000	25,000	0	20,800	5,246
11	52,800	-150,000	76,400	0	0	1,173
12	52,800	-150,000	97,200	0	0	0
13	52,800	-150,000	97,200	0	0	0
14	52,800	-150,000	97,200	0	0	0
15	52,800	-150,000	97,200	0	0	0
16	52,800	-150,000	97,200	0	0	0
17	52,800	-150,000	97,200	0	0	0
18	52,800	-150,000	97,200	0	0	0
19	52,800	-150,000	97,200	0	0	0
20	52,800	-150,000	97,200	0	0	0
<b>Totals</b>	<b>1,048,800</b>	<b>-3,000,000</b>		<b>0</b>		<b>237,443</b>

#### SUMMARY:

- 1) Borrow R750 000
- 2) Participation Share: R1 000 per person p.a. until break-even
- 3) Interest cost subsidised
- 4) Insurance at 1% of value

#### RESULT:

Break-even after 11 years

Surplus R97 200 p.a. thereafter (R3 888 per person p.a.)

## Model 4b: 25% BEE equity transfer of exist. plantations

### Interests not subsidised & no land acquisition grant

Average Medium Grower Farm: 240Ha under timber in rotation

25 Farm Workers Allocation: Assume no LRAD Grant funding

### Purchase of 25% share (60Ha) at R12 500/Ha

Funding is calculated at IDC rates of prime less 5%

Prime Overdraft Rate: 10.50% IDC Rate: 5.50%

IDC Effective

Rate: 5.64%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Participation Share	Interest	Cumulative Costs
0	750,000			0	750,000
1	48,000	-150,000	25,000	42,306	715,306
2	50,400	-150,000	25,000	40,349	681,055
3	52,800	-150,000	25,000	38,417	647,272
4	52,800	-150,000	25,000	36,511	611,583
5	52,800	-150,000	25,000	34,498	573,881
6	52,800	-150,000	25,000	32,371	534,052
7	52,800	-150,000	25,000	30,125	491,977
8	52,800	-150,000	25,000	27,751	447,528
9	52,800	-150,000	25,000	25,244	400,572
10	52,800	-150,000	25,000	22,595	350,967
11	52,800	-150,000	25,000	19,797	298,564
12	52,800	-150,000	25,000	16,841	243,205
13	52,800	-150,000	25,000	13,719	184,724
14	52,800	-150,000	25,000	10,420	122,944
15	52,800	-150,000	25,000	6,935	57,679
16	52,800	-150,000	36,000	3,254	-267
17	52,800	-150,000	97,200	0	-267
18	52,800	-150,000	97,200	0	-267
19	52,800	-150,000	97,200	0	-267
20	52,800	-150,000	97,200	0	-267
<b>Totals</b>	<b>1,048,800</b>	<b>-3,000,000</b>		<b>401,133</b>	

### SUMMARY:

- 1) Borrow R750 000
- 2) Participation Share: R1 000 per person p.a. until break-even
- 3) Interest cost included
- 4) Insurance at 1% of value

### RESULT:

Break-even after 16 years  
 Surplus R97 200 p.a. thereafter (R3 888 per person p.a.)

### Model 4c: 25% BEE equity transfer of exist. plantations

#### Interests at higher IDC rate & no land acquisition grant

Average Medium Grower Farm: 240Ha under timber in rotation

25 Farm Workers Allocation: Assume no LRAD Grant funding

#### Purchase of 25% share (60Ha) at R12 500/Ha

Funding is calculated at IDC rates of 2.5% real return

Current Inflation Rate 4.00% IDC Rate: 6.50%  
 IDC Effective

Rate: 6.70%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Participation Share	Interest	Cumulative Costs
0	750,000			0	750,000
1	48,000	-150,000	25,000	50,229	723,229
2	50,400	-150,000	25,000	48,436	697,065
3	52,800	-150,000	25,000	46,684	671,549
4	52,800	-150,000	25,000	44,975	644,324
5	52,800	-150,000	25,000	43,152	615,276
6	52,800	-150,000	25,000	41,206	584,282
7	52,800	-150,000	25,000	39,130	551,212
8	52,800	-150,000	25,000	36,916	515,928
9	52,800	-150,000	25,000	34,553	478,281
10	52,800	-150,000	25,000	32,031	438,112
11	52,800	-150,000	25,000	29,341	395,253
12	52,800	-150,000	25,000	26,471	349,524
13	52,800	-150,000	25,000	23,408	300,732
14	52,800	-150,000	25,000	20,141	248,673
15	52,800	-150,000	25,000	16,654	193,127
16	52,800	-150,000	25,000	12,934	133,861
17	52,800	-150,000	25,000	8,965	70,626
18	52,800	-150,000	25,000	4,730	3,156
19	52,800	-150,000	93,833	211	0
20	52,800	-150,000	97,200	0	0
<b>Totals</b>	<b>1,048,800</b>	<b>-3,000,000</b>		<b>560,167</b>	

#### SUMMARY:

- 1) Borrow R750 000
- 2) Participation Share: R1 000 per person p.a. until break-even
- 3) Interest cost at IDC 2.5% real, included
- 4) Insurance at 1% of value

#### RESULT:



Break-even after 19 years  
 Surplus R97 200 p.a. thereafter (R3 888 per person p.a.)

### Model 4d: 25% BEE equity transfer of existing plantations

#### Interests at commercial rate & no land acquisition grant

Average Medium Grower Farm: 240Ha under timber in rotation

25 Farm Workers Allocation: Assume no LRAD Grant funding

#### Purchase of 25% share (60Ha) at R12 500/Ha

Funding is calculated at best commercial interest rate available

Prime Overdraft Rate: 10.50% Best Comm Rate: 7.75%  
Effective Rate: 8.03%

Calculations are done annually, rates adjusted to allow for monthly compounding of interest

Year	Costs Incurred	Revenue	Participation Share	Interest	Cumulative Costs
0	750,000			0	750,000
1	48,000	-150,000	25,000	60,235	733,235
2	50,400	-150,000	25,000	58,888	717,523
3	52,800	-150,000	25,000	57,626	702,949
4	52,800	-150,000	25,000	56,456	687,205
5	52,800	-150,000	25,000	55,191	670,196
6	52,800	-150,000	25,000	53,825	651,821
7	52,800	-150,000	25,000	52,350	631,971
8	52,800	-150,000	25,000	50,755	610,526
9	52,800	-150,000	25,000	49,033	587,359
10	52,800	-150,000	25,000	47,173	562,332
11	52,800	-150,000	25,000	45,163	535,295
12	52,800	-150,000	25,000	42,991	506,086
13	52,800	-150,000	25,000	40,645	474,531
14	52,800	-150,000	25,000	38,111	440,442
15	52,800	-150,000	25,000	35,373	403,615
16	52,800	-150,000	25,000	32,416	363,831
17	52,800	-150,000	25,000	29,220	320,851
18	52,800	-150,000	25,000	25,769	274,420
19	52,800	-150,000	25,000	22,039	224,259
20	52,800	-150,000	25,000	18,011	170,070
21	52,800	-150,000	25,000	13,659	111,529
22	52,800	-150,000	25,000	8,957	48,286
23	52,800	-150,000	45,036	3,878	0
24	52,800	-150,000	97,200	0	0
25	52,800	-150,000	97,200	0	0
26	52,800	-150,000	97,200	0	0
27	52,800	-150,000	97,200	0	0
28	52,800	-150,000	97,200	0	0
29	52,800	-150,000	97,200	0	0
<b>Totals</b>	<b>1,524,000</b>	<b>-4,350,000</b>		<b>897,764</b>	

#### SUMMARY:

- 1) Borrow R750 000
- 2) even
- 3) Interest cost at best commercial rates included
- 4) Insurance at 1% of value Participation Share: R1 000 per person p.a. until break-

**RESULT:** Break-even after 23 years

Surplus R97 200 p.a. thereafter (R3 888 per person p.a.)

**(Footnotes)**

- 1** *Target time period for completion after the signing of the Charter*
- 2** *DWAF should start process 6 weeks beforehand*
- 3** *Reference made to “state plantation areas” to distinguish this from “indigenous forests”*



