



FORESTRY SOUTH AFRICA

**3RD ANNUAL REPORT FOR YEAR ENDED
31ST DECEMBER 2004**

FORESTRY SOUTH AFRICA

(Non-profit Organisation Registration Number – 017-638 NPO)

3RD ANNUAL REPORT FOR YEAR ENDED 31ST DECEMBER 2004

ORGANISATION DETAILS

Johannesburg

Head Office
C/R Austin & Morris Streets
Woodmead, Sandton
P.O. Box 1553,
Rivonia, 2128
Republic of South Africa

Telephone:

(011) 803-3403/4

Facsimile:

(011) 803-6708

E-mail:

fsa@forestrysouthafrica.co.za
roger@forestrysouthafrica.co.za

Staff Members

Mike Edwards - Executive Director
Roger Godsmark - Assistant Director
Ann Blake - Secretary
Muriel Farquharson - Financial Controller
Isaac Mudau - Clerk
Bethuel Maubane - Caretaker

Pietermaritzburg

Regional Office

1st Floor, Safire House,
Redlands Estate, Wembley
Pietermaritzburg

P.O. Box 13735,
Cascades, 3202
Republic of South Africa

Telephone:

(033) 345-1366

Facsimile:

(033) 342-1076

E-mail:

judy@forestrysouthafrica.co.za
steven@forestrysouthafrica.co.za

Staff Members

Steven Ngubane - Small Business Development Manager
Judy Dowsett - Regional Co-ordinator
Gloria Ndlovu - Clerk

WEBSITE ADDRESS

www.forestry.co.za

BANKERS

STANDARD BANK OF SOUTH AFRICA LIMITED

AUDITORS

A.M. SMITH AND COMPANY



LIST OF OFFICE BEARERS AS AT 31ST DECEMBER 2004

MEMBERS OF THE EXECUTIVE COMMITTEE

ANDREW THOMPSON (CHAIRMAN)
MURRAY MASON (VICE-CHAIRMAN)
BRIAN AITKEN
KOBUS BREED
PHILIP DAY
KEN FENNER
STEVEN NGUBANE
CHRIS PIENAAR
ANDRÉ WAGENAAR

LARGE GROWERS GROUP

ROGER GODSMARK (CHAIRMAN)
KEVIN CAZALET
IAN HENDERSON
JED KRIGE
JAMES LUCKHOFF
SHAUN McCARTNEY
DINGA MNCUBE
LOUIS VAN ZYL
SIGGIE VON FINTEL

MEDIUM GROWERS GROUP

MURRAY MASON (CHAIRMAN)
BRIAN AITKEN (VICE-CHAIRMAN)
PHILIP DAY (VICE-CHAIRMAN)
MAATIES BODENSTEIN
DR. PAT COLEBY
RALPH DOBEYN
WELLINGTON GCUMISA
LAWRENCE HILL
WALLY KEYSER
PETER LORENZ
JACK MASON
RODNEY MILES
COLIN MORGAN
TREVOR MORGAN
HARALD NIEBUHR
REG NIEBUHR
BEN NTULI
DAN PEOPLES
DR. CARL SEELE
ANDRÉ SCHEEPERS
WILLOBY VAN REENEN
HENDRIK ZIERVOGEL

HONORARY LIFE MEMBERS

DR. DOUG CROWE; DAVID EARL; BRUCE FERGUSON; JULIUS HEIM; JOHN HENDERSON;
FRIEDEL JOHANNES; DR. JAN KEMP; FRED KEYSER; FRIEDEL KLIPP; JOHN MOORE;
PHILIP NEL; VERNON SCHEFERMANN; SPATZ SPERLING; WERNER WEBER

FSA 2004 ANNUAL REPORT

Page No.

1. FOREWORD TO FSA 2004 ANNUAL REPORT	4
2. FORESTRY SOUTH AFRICA DURING 2004	5
• FSA Grows in Stature	5
• FSA Membership	6
• FSA Finances	6
• FSA Budgets	7
• FSA Committees	8
• FSA 2004 Annual General Meeting	9
• FSA and other Industry Organisations	9
• FSA Interaction with Government Departments	10
• FSA Representation on non-FSA Bodies	10
• FSA Staff Matter	11
• Obituaries	11
3. FORESTRY ISSUES ADDRESSED BY FSA DURING 2004	12
• Water Issues	12
• Environmental Issues	14
• Afforestation Issues	17
• Transportation Issues	18
• Human Resources and Land Affair Issues	19
• Forest Protection Issues	21
• Small Grower Development Issues	23
• Forestry Research Issues	24
4. FSA'S ROLE IN OTHER INITIATIVES	26
• Forestry Contractors Productivity Initiative (FCPI)	26
• Working for Water and Working on Fire Programmes (WfW & WoF)	26
• National Forests Advisory Council (NFAC)	26
• National Water Advisory Council (NWAC)	27
• Water and Forestry Support Programme (WFSP)	27
• Forest Industries Education and Training Authority (FIETA)	27
• Dti Forestry, Timber and Paper Forum	28
5. APPRECIATION AND ACKNOWLEDGEMENTS	29
6. 2004 AUDITED FINANCIAL STATEMENTS	30

FORESTRY SOUTH AFRICA



FOREWORD TO FSA 2004 ANNUAL REPORT



2004 has been a year of wide-ranging activity on many issues for FSA, of important progress and achievement and of some frustration where objectives could not be achieved.

The organisation has remained true to its enduring and central objective of supporting the achievement by commercial forestry of its full potential in South Africa. This has been challenged by an environment of changing economic conditions, higher social expectations and a range of new policies, legislation and regulations. However, FSA's inclusive constitution and representation, its financial soundness and the energetic commitment of its small but dedicated staff have ensured that the organisation has responded very creditably.

The successes achieved by FSA during 2004 are comprehensively documented in this annual report and I would encourage stakeholders to refer to the sections with more detail on issues of particular interest or importance to them. Equally, where FSA's initiatives have not yet achieved desired outcomes, frank explanations have been provided as well.

I would draw particular attention to the vitally important issue for South Africa of broadening the participation of historically disadvantaged people in the economic mainstream, and in our case in commercial forestry. FSA recognises the need for a sensible and co-ordinated approach to transformation in forestry and I have little doubt that this will remain a focus area in 2005.

In closing, may I thank all of my FSA Executive Committee colleagues, representatives on the grower committees and on the sub-committees and, last but not least, Mike Edwards and his dedicated team. It is through their collective and selfless efforts that FSA has enjoyed another most constructive year of endeavour.

A handwritten signature in black ink, which appears to read 'A.M. Thompson'.

A.M. THOMPSON
CHAIRMAN
FORESTRY SOUTH AFRICA

FORESTRY SOUTH AFRICA DURING 2004

FSA GROWS IN STATURE

After three years in existence, FSA can be proud that it has established itself as an organisation that means business, that can effectively address issues relevant to the wellbeing of the commercial forestry industry, that has been accepted as the voice of timber growers and that can operate efficiently within the parameters laid down by its Executive Committee.

2004 has been another busy year, with the resources available to the organisation having been utilised to their fullest extent. The effort has been beneficial to members in many respects, the following being of importance:

- a successful outcome to the stream flow reduction activity water resource management tariff debate, through the implementation of acceptable tariff increases;
- achievement of a sensible outcome for timber growers in relation to the rating of agricultural and forestry land through; amongst others, the exclusion of standing timber values from the value of the forestry estate;
- a successful rolling out and implementation of the "Tuth ihlathi" (move the forest) rail project;
- increasing participation in and the implementation of benefits for road transport in terms of the industry developed Load Accreditation Programme;
- a much improved scenario relating to the assessment of afforestation water use licence applications through mapping, SEA and streamlining of consent procedures amongst others;
- a considerably more pragmatic approach to the issue of a sectoral wage determination for the forestry industry;
- a successful implementation of the sirex woodwasp tree inoculation programme;
- significant strides in the organisation of FSA's small grower support programme, with the assistance of funding from Dfid;
- finalisation of the industry developed wetland and riparian zone habitat delineation procedures;
- development of a small contractor black economic empowerment strategy under the Forestry Contractor Productivity Initiative;
- increasing recognition of the value and contribution of the forest sector through the commissioning of a strategic forestry sector investigation by the Department of Trade and Industry; and
- a successful outcome to the deliberations regarding the future of the Forest Industries Education and Training Authority (FIETA).

Issues that the organisation has dealt with but where the outcomes have perhaps not come up to expectation or which have not achieved the desired result would, inter alia, be:

- achieving wider recognition for benefits that forestry contributes to the economy and rural development in particular;
- lobbying with the Department of Environmental Affairs and Tourism for a greater appreciation by them of the environmental credentials of the forestry industry;
- lifting of the moratorium on afforestation in the Bivane/Pongola water catchment;
- achieving a reduction in the rate of escalation of rail tariffs;



- achieving a reduction in the unacceptably high levels of forest fires and timber theft;
- capping of the level at which municipalities will implement rates on agricultural and forestry land; and
- achieving equity in the declaration of other dry land cropping activities as stream flow reduction activities in terms of the National Water Act.

Of most importance, however, has been the acceptance of the credentials of FSA and the cordial manner in which interaction or negotiations with the various government departments and other agencies in dealing with issues has taken place.

In short, there is little doubt that the stature of FSA has continued to grow during 2004.

FSA MEMBERSHIP

No changes to membership occurred during the year, and despite the process of restructuring of the state forests, especially SAFCOL's Mpumalanga plantations, membership by Komatiland Forests on a fully paid-up basis was maintained. Preliminary discussions were initiated with Cape Timber Resources and Amathole Forest Holdings towards the end of 2004 to become members of FSA, with both companies agreeing to become members during 2005, once the restructuring agreements have been signed. FSA has almost completed its objective of formalising small grower structures in Limpopo and KwaZulu Natal Provinces, which will lead to an FSA small grower membership data base being finalised.

FSA FINANCES

The audited financial statements for the year ended 31st December 2004 are included at the end of this Annual Report. A brief resumé of the salient points arising from these statements is given hereunder:

INCOME

Income received through membership contributions, interest earned and other attributable sources amounted to R11 887 419. Equivalent income for 2003 amounted to R12 179 293, so there was a reduction in income during 2004 of R291 874 or 2%. Despite this drop, 2004 total income was R606 677 or 5.4% more than what was budgeted for 2004.

EXPENDITURE

Total expenditure for 2004 amounted to R12 226 496, an increase of R643 323 or 6% over that of 2003. The approved expenditure budget for 2004 amounted to R11 739 821, so actual expenditure exceeded budget by R486 675 or by 4.2%. This overrun on budget was due to five items of expenditure that were approved during the year but not included in the approved budget, namely:

(i): Contribution to the Load Accreditation Programme	R250 000
(ii): FSA contribution to the Dfid Project	R100 508
(iii): Revision of water consultant's contract	R 64 500
(iv): Overseas visit by environmental consultant	R 16 000
(v): Medium Growers Group bursaries	R 50 000
	<u>R481 008</u>

Were it not for these ad hoc approved but unbudgeted for items, then total expenditure would have been only R5 667 or 0.05% over budget.

NET OPERATING SURPLUS (DEFICIT)

Income of R11 887 419 and expenditure of R12 226 496 has resulted in a net operating deficit for the year of R339 077. This means that FSA's reserves at the end of the year stood at R7 516 994 as compared to R7 856 071 as at the end of 2003.

BALANCE SHEET

FSA's balance sheet remains strong with bank/cash balances remaining equivalent to 2003, at R5 156 941.

2005 BUDGET AND MEMBERSHIP FUNDING

During November 2004 the Executive Committee approved FSA's 2005 operating and industry funding budget which is shown below:

Budget	Approved 2004	Approved 2005	% Incr.
FSA Operations	R 3 274 980	R 3 402 170	4.0%
Industry Funding	R 8 464 841	R 9 284 286	10.0%
Total	R11 739 821	R12 686 456	8.0%

To fund this approved expenditure budget the Executive Committee authorised an increase in the rate of membership contributions from 70 cents per ton to 75 cents per ton of roundwood sold, an effective increase of 5 cents per ton. The 2005 Budget would take effect as from the 1st January, 2005. The 2005 budget would be funded as follows:

Source	Amount
Membership contributions	R12 000 000
Attributable income	R 425 898
Grant ex T.M.B. for sirex	R 300 000
Surplus (Deficit)	R 39 442

In approving this Budget, FSA must record its special thanks to the Timber Marketing Bureau for their three year annual contribution to the sirex control programme and to all members for their ongoing willingness to contribute financially. Lastly, special thanks are recorded to Mrs. Muriel Farquharson who has so capably managed FSA's accounts.



FSA COMMITTEES

EXECUTIVE COMMITTEE

The Executive Committee met three times during 2004, in May, August and November, in addition to which a special Exco. strategic planning meeting was held during August. At the Annual General Meeting held in May, Mr. Andrew Thompson assumed the position of Chairman, succeeding Mr. Brian Aitken and Mr. Murray Mason was elected as Vice-Chairman, succeeding Mr. Andrew Thompson. Additionally, Mr. André Wagenaar was elected to replace Dr. John Job. All other members were re-elected. During the year Mr. Mike Slater of Masonite resigned as a member of the Exco. with Mr. Ken Fenner of Global Forest Products being elected in his place.

Of particular importance was the strategic planning meeting held in August, the purpose of which was to assess the performance of FSA in terms of its objectives, to define its vision for the next ten years and to set priorities to meet that vision. The outcome of this meeting was that FSA needed to prioritise and focus on four issues namely:

- to raise the profile of the forestry sector with all relevant stakeholders;
- to become more strongly involved in and to promote black economic empowerment in the sector;
- to continue to engage government in addressing the increasing tempo of legislation and resultant regulation and cost of doing business; and
- to renew efforts to broaden representation and integrate new industry participants into FSA structures.

LARGE GROWERS GROUP (LGG)

Four meetings of this committee were held during the year. Membership of the committee remained the same as for the previous year, with the exception of Mr. André Wagenaar who was succeeded by Mr. Dinga Mncube.

MEDIUM GROWERS GROUP (MGG)

Three meetings of this committee were held during the year, in addition to which there were eight regional meetings and one Annual General Meeting. There were no changes to the Office Bearers for 2004, but there were three changes to membership. Mr. Ben Ntuli joined the committee as a nominated representative of NCT, and Mr. Stuart McMurray retired and Mr. Reiner van Rooyen resigned.

SMALL GROWERS GROUP (SGG)

The FSA small growers forum acted as the SGG given the fact that the formation of FSA provincial committees had not been finalised. Mr. Steven Ngubane, FSA's Small Business Development Manager, coordinated the activities of this forum and ex-officio represents small growers on the FSA Executive Committee. Provincial small growers committees will be in place by the end of March 2005 in Limpopo and KwaZulu Natal and appointments of the two small grower representatives on the Executive Committee will follow shortly thereafter.

INDUSTRY COMMITTEES

FSA operates five industry committees dealing with Water, Environment, Human Resources, Transport and Research. During 2004 these committees met on 12 occasions. To streamline the meetings of the committees and to reduce costs to participants in attending, joint meetings of the Water and Environmental Committees were held and similar rationalisation of meetings of the other committees will be looked at during 2005. The activities of these committees are reported on elsewhere in this Annual Report. As membership of all of these committees is made up by voluntary participation of members of FSA, it is necessary to record a special thanks to the members, not only for their participation but for their expert opinion which has been invaluable in achieving results and dealing with, at times, many sensitive and vexing issues.

FSA ANNUAL GENERAL MEETING

To bring FSA closer to where its members are located, it is policy to rotate meetings such as the Annual General Meeting between forestry areas. For this reason and to encourage participation by small growers, the 2004 A.G.M. was held at Empangeni in Zululand. The meeting, which was held on the 6th May, was attended by over 100 people although attendance by small growers was less than anticipated and therefore somewhat disappointing. The meeting itself was successful, with pertinent presentations being made by a number of persons, amongst these being Mr. Lionel October, Deputy Director General of the Department of Trade and Industry, Mr. Francois Baird, Chairman of Bairds Renaissance, Mr. Willem Olivier of Hudson Crane and Associates and Mr. Alfred Nxumalo a small timber grower from Zululand. The theme of the presentations was Black Economic Empowerment.

FSA AND OTHER INDUSTRY ORGANISATIONS

In last year's Annual Report it was mentioned that during 2004 steps would be taken to increase collaboration between industry organisations through the possible formation of an industry umbrella organisation, similar to the old but now defunct Forest Industries Association (FIA). Due to the decision taken by the S.A. Lumber Millers Association (SALMA) to downscale its operations, no progress towards this objective was made. Collaboration with PAMSA, the Pulp and Paper organisation, has, however, continued to strengthen and both FSA and PAMSA have worked closely together on a number of industry related issues. Of particular importance in this regard are the strategic industry investigation currently being undertaken by the Department of Trade and Industry (dti), and the investigation being done by the Department of Labour on the future of the FIETA. The Executive Director, Mr. John Hunt, is sincerely thanked for promoting collaboration and for the support rendered to FSA in dealing with several industry issues.



FSA INTERACTION WITH GOVERNMENT DEPARTMENTS

FSA's relationships and interaction with most government departments has remained strong and constructive, with mutual respect and understanding on issues being debated and negotiated having improved considerably. As the Department responsible for forestry issues, FSA's relationship with DWAF is all important. It is pleasing to report that a further strengthening of ties has manifested itself during 2004 with DWAF and FSA supporting each other in collectively addressing issues of importance. FSA acknowledges DWAF's role in achieving this situation. It is also necessary to acknowledge the support to forestry that has been given by the Ministers for Water Affairs and Forestry during 2004, Mr. Ronnie Kasrils and Mrs. Buyelwa Sonjica. To the previous Minister, Mr. Ronnie Kasrils, we offer our sincerest thanks for his support and his availability to always meet with FSA, and to his successor, Mrs. Buyelwa Sonjica, our congratulations on her appointment and our appreciation for the interventions and assistance that she has provided in addressing a number of issues.

FSA REPRESENTATION ON NON-FSA BODIES

FSA staff and members are involved in the activities of a number of external bodies, all of which have an important bearing on the forestry industry. The more important of these are the following:

National Forests Advisory Council	Minister
Board of Institute for Commercial Forestry Research	ICFR
Board of Forestry & Agricultural Biotechnology Institute	FABI
Board of Forest Industries Education & Training Authority	FIETA
Forestry Faculty Advisory Committee	Stellenbosch Univ.
Forestry Department Advisory Committee (Saasveld)	P.E. Technikon
Forestry Contractors Productivity Initiative	FCPI
Afforestation Water Licensing Committee	DWAF
Commercial Forestry Liaison Forum	DWAF
Forest Engineering Southern Africa	FESA
E. Cape Afforestation Initiative	ECDC
Regional SFRA Licensing Committees	DWAF

FSA is also affiliated to a number of non-forestry related bodies. These are considered necessary so that the organisation can keep abreast of developments in the broader business sector. These bodies are the following:

Agri. SA
S.A. Institute of Race Relations
Free Market Foundation of S.A.
National Research Foundation (NRF)
National Water Advisory Council
Kwanalu Property Rate Task Team
Kwanalu BBBEE Task Team
SA Chamber of Business (SACOB)

Beyond the borders of South Africa, FSA also has links with the following organisations:

United Nation's FAO Advisory Committee on Paper and Wood Products
Commonwealth Forestry Association
European Union Forestry Remote Sensing Steering Committee (Gloveg Project)
SGS Qualifor Certification Council
International Council of Forest and Paper Associations (ICFPA)

FSA is frequently asked to meet and give presentations to visiting overseas forestry delegations. These meetings also serve as important information gathering exercises on forestry developments in other parts of the globe. During 2004 meetings with delegations from the Peoples Republic of China, Sweden, Korea, Vietnam, Spain, Ghana, Chile and Japan were held.

FSA STAFF MATTERS

The staff of FSA has remained unchanged during 2004 and continues to operate at maximum capacity. Zero staff turnover is hugely important in a small organisation like FSA as it enables continuity of activities to take place. All members of staff are therefore thanked for their loyalty and support and in particular, their ongoing hard work and efforts in getting the job done and in serving the interests of all members of FSA.

FSA also engages the services of persons on a contractual basis to support it in areas of specific interest and without exception all of these persons have provided excellent service. Our sincerest thanks are thus recorded to Prof. Peter Roberts, FSA's Water Consultant, Dr. John Scotcher, FSA's Environmental Consultant and Mrs. Hallie Thomas, Administrative Support in FSA's Pietermaritzburg office.

During the year, three regional small grower facilitators were appointed on a one year contract basis to support and assist Mr. Steven Ngubane in coordinating and organising small growers in KwaZulu Natal. The three facilitators are Mr. Mandla Miya (South Coast Region), Mr. Nathi Ndlela (Midlands Region) and Mr. Mathews Mthembu (Zululand Region). These three persons are thanked for the efforts that they have put into their work, as is the United Kingdom's Department for International Development (Dfid) for their generous sponsorship to FSA to enable their appointment.

It was mentioned in the previous year's Annual Report that consideration was being given to relocating FSA's Assistant Director, Mr. Roger Godsmark, to FSA's Pietermaritzburg Office. This is now planned to take place in June 2005.

OBITUARIES

FSA is sad to record the passing away during 2004 of the undermentioned persons, all of whom were closely associated with FSA and or the old FOA and SATGA, and who rendered many years of loyal and dedicated support and service to these organisations.

- Mr. Bruce Mackenzie, previous Chairman and Chief Executive of FOA.
- Mr. Charles Couchman, member of FSA's Medium Growers Group General Committee.
- Mr. Tjaart van Rensberg, member of the FSA's Northern KZN Medium Growers Group Committee.
- Mr. Rudi Schoeman, member of the FSA's Limpopo Medium Grower Group. All members of FSA and the FSA staff express their condolences to the families and friends of the deceased.



FORESTRY ISSUES ADDRESSED BY FSA DURING 2004

WATER RELATED ISSUES

CONSTRUCTIVE PROGRESS MADE

The water debate remained at the forefront of FSA's endeavours during 2004. The following provides a brief resumé of the issues dealt with by the FSA national water committee.

WATER RESOURCE MANAGEMENT CHARGE

Despite the process of setting charges being far more transparent than was the case in previous years, the charges imposed resulted in an overall weighted increase to the forestry sector of almost 20%, with, in certain instances, increases in excess of 40%. The seriousness with which FSA viewed these increases resulted in discussions taking place with both the Minister, Mrs. Sonjica and the Director-General of DWAF, Mr. Mike Muller, the outcome of which was that the increases were reduced through an agreement to reduce the pollution control charge by 20%. The final agreement with DWAF resulted in an overall weighted increase to forestry of 8.2% for the 2004/05 year. FSA also indicated to DWAF that the forestry industry had been overcharged during the 2003/04 year and motivated a case for a refund to be made. DWAF accepted that there had been an overcharge but disputed the amount involved, as calculated by FSA. Towards the end of the year agreement was reached on the amount of overcharge and DWAF agreed to refund these amounts to individual water users through an adjustment to be made on their January/February 2005 invoices.

WATER PRICING STRATEGY (WPS)

In accordance with the National Water Act, DWAF initiated a review of the current WPS in October 2004. FSA has fully supported the process and has made formal submissions on how it believes the current strategy should be amended. The most important of these being:

- The scrapping of the "one size fits all" principle whereby all water-user sectors pay the same rate/m³ regardless of the relevance of the charge to the specific sector (e.g. forestry pays the same pollution control charge as industry!) and the introduction of sector specific charges.
- The WPS must empower the Minister to waive water charges under special circumstances when the user is unable to use water for extended periods (e.g. droughts, fires etc.).
- Charges that bear no relationship to water-use to be excluded (e.g. in the case of forestry, mine pollution control, solid waste control and 20/20 vision programme).
- The principle that financial autonomy through complete and full-up cost recovery from water users be scrapped, as most water users cannot afford this. This to be replaced with an "Affordability" principle.
- Small timber growers be included as part of DWAF's subsidy to resource poor farmers.

Discussions on the review are still taking place. It is intended to have the process completed and a revised WPS in place by the end of March 2005, to be implemented as from April 2006.

LICENCING FOR FORESTRY IN THE BIVANE/PONGOLA CATCHMENT

This issue remains unresolved and the status quo, as reported in last year's Annual Report, is unchanged. During 2004 a legal opinion on the matter was obtained that fully endorsed FSA's standpoint that in terms of the National Water Act, no SFRA can be forced to join a Water User Association and hence be subjected to additional charges. The question of the moratorium on the issuing of any new water licences in this catchment, imposed by DWAF, is also under discussion but at the end of the year, unresolved.

FSA is also pursuing the non-issuing of a number of water licences by DWAF, despite a ruling by the Water Tribunal that the licences must be issued.

SUSPENSION OF WATER CHARGES IN FIRE DAMAGED PLANTATIONS

Following on the devastating fires of 2003, FSA asked DWAF to suspend water charges on the affected plantations. Despite receiving a sympathetic ear from DWAF, it was determined that there was no provision in the WPS to enable this to be done, so charges could not be suspended. It was for this reason that FSA has asked for the new WPS to make provision for this. The only other option was for those plantation owners affected to deregister their water use. The problem with this, however, was that once deregistered, in order to replant, a new water licence would have to be applied for.

NATIONAL WATER RESOURCES STRATEGY (NWRS)

The NWRS was approved by Cabinet during. Many of the comments submitted by FSA appear to have been ignored and it was for this reason that FSA nonetheless submitted a further comment. By doing this we hoped to protect ourselves from accusations in future years that we didn't make our concerns known. The one positive change in forestry's favour was that the water use by forestry, as a percentage of total water use in the country, was downscaled from 8% to 3%.

WATER MANAGEMENT INSTITUTIONS

Members of FSA's water committee have been extremely active in engaging in almost all water related forums in forestry areas and in many instances have lead the way in debate. Of particular importance during 2004 was the involvement in Catchment Management Agency (CMA) establishment forums in the Inkomati, Usutu to Mhlatuze, Thukela and Umvoti to Mzimkulu Water Management Areas. Through forestry's interaction, many of the CMA's expectations regarding water charging have been tempered. Proposals made by FSA in regard to alternative operating structures for CMA's have also been taken into consideration. Especially pleasing is the fact that in the Inkomati Water Management Area, forestry has been guaranteed a seat on the CMA Governing Board. The names of two persons to fill this seat have been put forward, namely Ms. Patricia Mothibi-Thinane and Mr. Shaun McCartney, both of Global Forest Products. At the time of writing the Minister had not made any decisions on appointments.



OTHER WATER ISSUES

The water committee also dealt with a host of other issues, amongst these being the licensing of small growers, the afforestation exchange policy, licensing for the conversion from one genera to another, the wetland and riparian zone habitat delineation procedures and DWAF's water use invoicing system.

APPRECIATION

The above indicates the enormous amount of work undertaken by members of the committee. Of particular note has been the role played by FSA's Water Consultant, Prof. Peter Roberts, without which the Committee's achievement would have been considerably less. In recognition of this, the Executive Committee approved a complete revamp of his contract with FSA which was of considerably greater substance. This was implemented with effect from July 2004.

FSA therefore needs to record its appreciation and thanks to Peter Roberts and all members of the Water Committee for their efforts.

ENVIRONMENTAL ISSUES

LEGISLATIVE CHANGES ABOUND

APPOINTMENT OF FSA ENVIRONMENTAL CONSULTANT

Dr. John Scotcher commenced his duties as FSA's Environmental Consultant at the beginning of January 2004. This appointment was both timely and fortuitous given the raft of new environmental legislation and other related issues that came the Industry's way during the year. His appointment has made an enormous difference to FSA's ability and competence to deal with environmental issue.

ENVIRONMENTAL LEGISLATION

The tempo of new and amended environmental legislation and associated regulations increased dramatically during 2004. Much of this was controversial and problematic, particularly the National Environmental Management Act (NEMA) : Biodiversity Act and the proposed regulations under Section 24 (5) of the NEMA. Brief commentary on each of these is given hereunder.

NEMA : Biodiversity Act (Act No. 10 of 2004)

This Act was assented to by the State President on the 31st May 2004. Despite the industry having made both oral and written submissions to DEAT on the Bill, little cognisance was taken of these in the drafting of the Act. Forestry did not take issue with the intent of the Bill but more with its implementation, the problem being that it overlapped with both the National Water Act and the Conservation of Agricultural Resources Act and as such, created huge confusion and duplication. Unless resolved, there could be serious implications for the forestry industry.

Proposed Regulations under Section 24 (5) of NEMA (Act No. 107 of 1998) as Amended

Regulations under Section 24 (5) deal with the classification of activities and procedures for environmental impact assessment. Whilst it is a genuine attempt by DEAT to simplify procedures, which is to be welcomed, unfortunately, as the regulations appear in the draft, they have some very serious negative implications for forestry, in particular for small growers wishing to establish plantations. FSA's concerns in this regard relate to the following:

- Severe duplication in the afforestation consent process, as the requirements of the water licensing process already cover the same issues.
- The costs inherent in the process, which make the costs of the afforestation consent process unaffordable to all but large scale afforestation programmes.
- The fact that forestry has been singled out for attention, whilst other similar activities remain unaffected.

FSA made a formal submission to DEAT in August 2004, clearly bringing to its attention the serious consequences for forestry of the regulations. During January 2005 a second draft of these regulations was published for comment and again, no cognisance had been taken of FSA's input. This necessitated FSA raising the issue with the Minister, Mrs. Sonjica, who has subsequently taken urgent steps to intervene on our behalf. Should no satisfactory outcome be achieved then it will in all probability stop any form of small grower development, which will be contrary to the intentions of both FSA and DWAF.

Other Environmental Legislation

Through its Environmental Consultant, FSA also addressed issues arising from the NEMA Protected Areas, Coastal Zone Management and Air Quality Management Bills, although from a forestry perspective these are not of great significance.

DEVELOPMENT OF CRITERIA, INDICATORS AND STANDARDS FOR SUSTAINABLE FOREST MANAGEMENT (SFM)

As mentioned in last year's Annual Report, the CI&S's developed by the Institute for Natural Resources on behalf of the National Forests Advisory Council, were in the process of undergoing in-field validation. This process is still going on with finalisation thereof only likely towards the end of 2005.

FOREST CERTIFICATION ISSUES

During 2004 issues dealing with forest certification and FSC in particular, gathered momentum, amongst these being:

- An FSC initiated review of "Principle 10" dealing with plantations.
- The commencement of a process to develop a National Standard for FSC certification in South Africa.
- Development of the FSC based SLIMF programme.

FORESTRY SOUTH AFRICA



Review of Principle 10 of FSC

This process was initiated in September 2004 at a meeting in Bonn, Germany, the need for such a review being based on concerns raised primarily by Environmental NGO's about the credibility of FSC being able to certify plantations. These NGO's wanted a moratorium to be placed on any further certification of plantations world-wide. Fortunately, this request was not accepted but it was agreed to start a two year review process of Principle 10 in an endeavour to see where improvements could be made. The Executive Director, FSA's Environmental Consultant and Mr. Chris Burchmore from Mondi attended the Bonn meeting, with the latter-mentioned two persons having taken on the responsibility for looking after South Africa's interests in the review process. Dr. Scotcher has been nominated to sit on the Policy Working Group of this process.

Development of an FSC National Standard

In April 2004 South Africa was fortunate to be able to host the FSC Board to a meeting held in Sabie, which was addressed by the Executive Director and Dr. Scotcher. As a result of this meeting it was agreed to initiate the development of a S.A. National Standard for FSC certification, as only by doing this could plantations be certified taking into consideration local conditions and circumstances.

Through the efforts of Dr. Scotcher, by the end of the year, the final throws of establishing a National Standard Working Group were being made. Of importance is the fact that it has been agreed that the National Initiative will no longer be FSC specific but will be designed to incorporate the needs of all certification systems.

Development of the FSC based SLIMF Programme

SLIMF, which stands for "Small and Low Intensity Managed Forests", is aimed at finding a mechanism to facilitate the obtaining of FSC certification by smaller plantation owners and to make this more affordable. In conjunction with Natal Co-operative Timber Limited, who have been driving the process, Mr. Steven Ngubane has been closely involved. Encouraging progress has been made with the implementation of SLIMF.

WETLAND AND RIPARIAN ZONE DELINEATION PROCEDURE

These industry developed procedures are but another example of forestry's intent to ensure that it supports and practices sustainable development. These procedures have now become DWAF policy and an official publication will shortly be produced by DWAF for public dissemination.

FSA ENVIRONMENTAL GUIDELINES

Requests for copies of these guidelines continue to be made, not only from local sources but also from overseas. In addition, all students studying forestry, whether at Stellenbosch, Saasveld or KwaZulu Natal are now issued with a copy of the Guidelines. Any members wishing to obtain additional copies can do so through FSA's Johannesburg office.

ENVIRONMENTAL PUBLICITY

The forestry industry continues to receive negative publicity about its impacts on the environment but at the same time positive commentary was also received which was encouraging. FSA views the negative publicity seriously and has spent considerable time responding to this, endeavouring to provide facts and, when necessary, taking action to constructively address valid criticism. It remains a concern that forestry still has such a negative profile and renewed efforts are being made to change this. In this regard the efforts being made through industry and member environmental forums (e.g. SAIF and FELF's) are acknowledged. During 2005 the FSA Environmental Consultant has been asked to give the issue of publicity specific focus.

APPRECIATION

The issues being dealt with through FSA's environmental committee are of extreme importance and the efforts that have been made by members of the committee to address these need recognition. FSA therefore records its thanks to all members of the committee but in particular, Dr. John Scotcher. FSA also wishes to congratulate Mr. Shaun McCartney of Global Forest Products on his election as Chairman of the FSC. This is both an honour for Mr. McCartney and recognition for the S.A. forestry industry for its commitment to forest certification.

AFFORESTATION ISSUES

NEW AFFORESTATION BECOMING INCREASINGLY URGENT

Resource studies completed by Crickmay and Associates and Louis Heyl Associates during 2004 have again highlighted the increasingly urgent need to afforest new areas if we are to address the longer-term predicted supply shortage of roundlogs. These two studies conclude that South Africa is running out of timber and that to meet long-term timber requirements (i.e. up to the year 2034), we should be aiming to afforest new areas of around 770 000 hectares or 25 600 hectares per annum. In light of the current net increase in planted area amounting to just under 2 500 hectares per annum, achieving this figure seems highly remote given the practical limitations that exist in terms of land and water availability and the constraints thereon imposed under the existing legislation.

It is for this reason that FSA has continued to focus on the question of new afforestation, with the undermentioned being important in this regard:

- the publication of a set of maps covering tribal authority areas in KwaZulu Natal where afforestation could take place;
- the commencement of a Strategic Environmental Assessment Programme for forestry in the Eastern Cape;
- the development by DWAF of an "Afforestation Exchange" or what is now termed a "yield enhancement" policy;
- the development by DWAF of a Wattle Jungle Rehabilitation policy;
- an afforestation application streamlining investigation;
- approval of a wattle afforestation policy by the Eastern Cape Provincial Administration;

FORESTRY SOUTH AFRICA



- agreement on an Eastern Cape Forestry Development Programme by the Eastern Cape Development Corporation; and
- generally, a more pragmatic approach to new afforestation applications by the various Provincial SFRA Licence Assessment Advisory Committees.

One of FSA's strategic objectives in dealing with new afforestation is to focus on the promotion and development of small timber growers in KwaZulu Natal, Limpopo and the Eastern Cape.

There is no doubt that headway has been made during 2004 in addressing the new afforestation issue but there is still a huge amount of work to be done. FSA will continue its efforts to ensure that new afforestation is not unnecessarily restricted.

TRANSPORTATION ISSUES

FORESTRY INITIATIVES BEGIN TO PAY DIVIDENDS

A great deal of activity and lobbying took place by FSA during 2004 on transport issues with some positive and some negative outcomes. The following is relevant.

RAIL TRANSPORT

On the positive side, the Industry/Spoornet collaboration in terms of the "Tuth Ihlathi" Project in the Pietermaritzburg and Northern KwaZulu Natal areas proved invaluable, with Spoornet's efficiency and reliability improving dramatically and wagon availability problems becoming almost something of the past. These are welcome developments and clearly underscore the merit in trying to address concerns in a constructive manner. Having proved successful, it is now hoped that the project will be implemented in other regions.

Operation of branch lines, however, remained a problem in certain areas with lines becoming unsafe due to a lack of maintenance. FSA addressed this matter with Spoornet at the beginning of 2004.

The biggest disappointment remained rail tariffs with unilateral increases being implemented by Spoornet during 2004 ranging from 15% to 25%. The magnitude of these increases, following on similar increases the previous year and the manner in which they were implemented, necessitated FSA having a number of meetings with Spoornet. As no success was achieved in negotiating more favourable tariffs, FSA addressing the issue directly with Transnet's CEO, Ms. Ramos as well as with the Ministers of Transport and Public Enterprises respectively. Towards the end of 2004 FSA was advised, however, advised that tariff increases for 2005 would range from 2.2% to 15.0%. These increases are certainly more acceptable than those imposed during the previous two years. FSA will continue to monitor tariff increases and take action where deemed necessary.

ROAD TRANSPORT

FSA's focus on road transportation centred on the Load Accreditation Programme (LAP), the importance thereof again being underscored by the Executive Committee's decision to fund the Programme with an additional grant of R250 000.

Overloading of timber trucks still remains a huge problem but it is encouraging to note that there has been a 30% reduction in the incidence of overloading since November 2003. Equally as positive, has been the increasing willingness of transport contractors to operate in accordance with the LAP and already three timber hauliers have received full LAP accreditation and have benefited through a large reduction in the number of their vehicles being stopped and weighed. The timber industry has shown the way in attempting to enforce compliance through self-regulations in terms of LAP and FSA will continue to encourage timber hauliers to participate in the programme.

A potential problem arose during the year with regards to funding of the LAP by the National Department of Transport which threatened to stop the roll-out of the programme. Intervention by FSA through contact with the NDoT, however, resolved the problem. Testimony to the value that the road authorities place on the LAP is the fact that it has been agreed to make the programme a national initiative during 2005.

FSA wishes to record its appreciation to all involved for making LAP a success.

HUMAN RESOURCES AND LAND AFFAIR ISSUES

LAND, WAGE AND BBBEE ISSUES A PRIORITY

A considerable amount of time and effort was spent by members and, in particular, the Assistant Director on various human resources and land issues during 2004. The results of these efforts have been generally positive and constructive relationships have been developed with, amongst others, Kwanalu and the Department of Labour. The following is a brief synopsis of the issues handled.

BROAD BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

During 2004 there has been an increased focus by government on "transformation", of which broad based black economic empowerment is a central pillar. In the case of forestry, this has resulted in the implementation of an initiative to develop a "Charter" for the industry by DWAF. The importance of this issue has been fully recognised by FSA and the Executive Committee has mandated this as a priority. FSA therefore began a process to develop an industry BBBEE framework during 2004, the first task being an investigation to determine what was happening on the ground amongst its members. It is hoped to have the results of this investigation completed by the end of March 2005 so that they can be fed into the process of developing a charter, in collaboration with DWAF and other stakeholders.

FSA is working closely with Kwanalu on understanding both the issues and the process involved in developing a charter.

MUNICIPAL PROPERTY RATES

As a result of FSAs' lobbying with the Parliamentary Portfolio Committee on Provincial and Local Government, a much more favourable outcome in terms of the Municipal Property Rates Act, promulgated during 2004, was achieved. Amongst these were the fact that in the Act, not only was the value of standing timber excluded from the market value of farms for rating purposes but municipalities, in setting rates, were obliged to take into account the contribution made to the provision of services by farming / forestry communities.



Regardless of these, FSA still has a number of concerns regarding the Act which, if not adequately addressed, could have serious negative impacts on the viability of timber growing. Amongst the more important of these are:

- the non-applicability of any capping mechanism on the level of rates that can be implemented by municipalities (FSA requested a cap of 0.5%);
- the introduction of rates by certain municipalities in advance of the Act being implemented, thereby denying newly rateable landowners the benefit of the phasing in of rates, as allowed for in the Act; and
- the insensitivity of municipalities to the economic impact that the levying of rates may have on farming enterprises.

FSA will continue to address these concerns on behalf of the industry during 2005 to ensure that municipalities abide by the spirit of the Act. As part of the Kwanalu property rates task team, the following activities are also being undertaken.

- Commissioning of case studies to determine the impact that rates will have on the viability of farming and forestry enterprises.
- Production of an information brochure to assist the farming community with interaction with municipalities.
- Monitoring the implementation of property rates.

LAND CLAIMS

The incidence of land claims on forestry land escalated during 2004, giving rise to added concerns by members as to the future of their enterprises. Whilst most of these claims were being handled by the affected landowners themselves, FSA has agreed to try and get a consolidated overview of these so that affected members can interact amongst themselves and learn from each others' experiences. FSA will be compiling a list of contact persons within each magisterial district where land claims have been lodged. Of particular concern is the problem that government has with the funding of land restitution and the possibility of them implementing a "land tax" to help pay for it. FSA will monitor such developments closely.

FORESTRY SECTORAL WAGE DETERMINATION

In 2004 the forestry sectoral determination was put on hold pending the outcome of a review of the agricultural sectoral determination. This review has been initiated by the Department of Labour (DoL) following their acceptance that certain unintended and negative consequences have arisen from compliance with the agricultural determination. The review will cover the following problem areas:

- the two tier wage system;
- the 27 hour per week provision;
- allowable deductions; and
- the situation regarding labour tenants.

Once completed, it is hoped that FSA's recommendation that the forestry industry does not need a separate determination and that the industry should fall under the agricultural sectoral determination, will be accepted.

FOREST PROTECTION ISSUES

S.A.'s PLANTATION RESOURCE REMAINS VULNERABLE

South Africa's timber plantations continued to experience considerable losses during 2004 as a result of climatic conditions, disease, pest infestations and fires. The issue of forest protection therefore remained of uppermost importance to FSA during 2004. Some of the more important issues of concern and issues where FSA has played a role are the following:

COMBATING THE SPREAD OF PITCH CANKER FUNGUS (FUSARIUM CIRCINATUM)

Under the guidance of the ICFR and with the support of FABI and FSA, a number of initiatives were taken by the Pine Fusarium Working Group (PFWG) during 2004, including:

- the development of a PFWG Website (www.icfrnet.unp.ac.za/fusarium);
- the successful completion of the nursery certification process, which will be implemented in January 2005; and
- the finalisation of an Industry based protocol for monitoring the rate of spread of Fusarium in commercial plantings.

COMBATING THE SPREAD OF THE SIREX WOODWASP

As part of the FSA sponsored sirex control programme, during 2004 almost 180 million "Beddingia siricidicola" nematodes, reared at FABI, were inoculated into nearly 1 800 sirex infested pine trees. Whilst this is a laudable start to controlling the spread of sirex, the programme will have to be significantly upscaled in coming years to ensure success. During 2005 it is intended to release over 500 million nematodes. In order to facilitate this and to put in place more proactive management and monitoring capability, at the end of 2004, FSA approved a considerable increase in its funding of the control programme (from R640 000 to over R1 million for 2005).

This additional funding will go towards the employment of another technician to be located at FABI, who will have specific responsibility for rearing the nematodes and the appointment of Dr. Bernard Slippers as Technical Advisor to the control programme. Through funds provided by FSA during 2004, a specialised liquid-nitrogen storage facility was purchased by FABI. Whilst it is too early to be able to determine the efficacy of the interventions taken, it is encouraging to see that the rate of spread of the woodwasp appears



to have slowed down, with the front not having spread beyond the KwaZulu Natal Midlands. What, however, is disturbing is the fact that the siren infestation in pine plantations seems to be considerably more intense than originally thought, with tree mortality, as a result, becoming more and more noticeable.

INFESTATIONS OF "COSSID MOTH"

A cossid moth, "*Coryphodema tristis*", is the latest pest threatening South Africa's timber plantations, having been discovered infesting *Eucalyptus nitens* plantations in the Highveld Region of Mpumalanga, for the first time during 2004. Whilst the cossid moth is not new to South Africa, being hosted by a range of indigenous tree species, it is the first time that it has been found in exotic tree plantations, with the worrying concern that it could well be hosted by other *Eucalypt* species. This development needs careful monitoring and again highlights the importance of FSA's decision some years ago to support the development of an entomological support programme at FABI.

FOREST FIRE DAMAGE

It is estimated that some 20 000 hectares could have been damaged. Whilst this is considerably less than the 35 000 hectares recorded for 2003, it is still much higher than the annual average over the previous 20 years of 12 000 hectares per annum and is cause for great concern. Whilst one needs to be sensitive when speculating about the spread of fires, two issues of concern relate to the decrease in expertise on the ground to manage fires and the possible impact that outsourcing of forestry operations has had on ground based fire fighting capability. FSA has recognised these and will be giving the matter its attention during 2005.

On a more positive note, FSA has lent its support and is involving itself in the Working on Fire Programme.

CLIMATIC DAMAGE

Whilst climatic conditions are always a threat and are unpredictable, 2004 was not too bad a year overall. They did have impacts in specific areas however, the most notable being snow damage to Wattle and *Eucalyptus* plantations in the KwaZulu Natal Midlands, where approximately 5 000 hectares were damaged during September.

APPRECIATION

In reporting on the abovementioned, it would be remiss not to record FSA's thanks to all those who have involved themselves in the various areas associated with forest protection issues. In particular however it is necessary to thank the undermentioned.

- The sawmilling industry's Timber Marketing Bureau, who have generously agreed to a three year annual sponsorship of the siren control programme to the value of R300 000 per year.
- Prof. Mike Wingfield, Mr. Brett Hurley and Mr. Hardus Hattingh, together with other members of FABI, staff and students alike involved in the siren control programme.

- Prof. Colin Dyer and the staff of the ICFR who have been involved in both the siren and fusarium control programmes.
- The Management and operational staff of the Working on Fire Programme.

SMALL GROWER ISSUES

SMALL GROWER SUPPORT PROGRAMME GATHERS MOMENTUM

2004 has been a particularly busy year for FSA's Small Business Development Manager, Mr. Steven Ngubane, with some exciting and beneficial developments taking place. In last year's Annual Report it was mentioned that FSA had submitted a proposal to the UK Government's Department for International Development (Dfid) for funding support to enable it to speed up its objective to organise and capacitate small growers. It is pleasing to report that an agreement was signed with Dfid, which has enabled FSA, through DWAF's Water and Forestry Support Programme (WFSP), to accelerate its efforts towards achieving these objectives. Dfid's support relates to a grant of R1.2 million, to be spent on the following Projects:

- The establishment of a representative small grower structure and the development of capacity building and skills development support systems for these structures (R1 064 000).
- The development of a small grower database (R65 000).
- The development of a small grower communication and information strategy (R70 000).

As at the end of 2004, the first of the abovementioned projects had already been started, with the other two earmarked for commencement in April, 2005. As part of the agreement with Dfid, FSA's contribution to the programme for the period August 2004 to July 2005 would be R360 000. At the Executive Committee meeting held in May 2004, unanimous approval for this was given, emphasising the importance that FSA places on this matter.

As part of the first project, and as reported on under "Staff Matters", three Regional Facilitators were appointed during August on a one year contract, the persons concerned being Mr. Mandla Miya (KZN South Coast Region), Mr. Nathi Ndlela (KZN Midlands Region) and Mr. Mathews Mthembu (KZN Zululand Region). Under the guidance of a steering committee and with close management by Mr. Steven Ngubane, good progress in the establishment of representative structures has been made and it is anticipated that by the end of March 2005, three regional FSA small grower committees and an overarching FSA KwaZulu Natal small grower committee will have been formally established. This latter-mentioned committee, together with the FSA small grower committee established in Limpopo Province, will enable the appointment of two small grower representatives to be appointed to the FSA's Executive Committee.

Aside from the Dfid sponsored programme, other activities that have significance for FSA's small grower development initiative are the following:

- Representation on both the KwaZulu Natal and Eastern Cape SFRA LAAC's to ensure that small grower afforestation interests are looked after.



- Development of small grower afforestation maps for KwaZulu Natal and the organisation of public meetings to explain their relevance.
- Participation and involvement in the development and implementation of the SLIMF certification programme for small growers.
- Interaction at both Provincial and Local Government level to ensure that forestry features as part of Provincial Growth and Development Strategies and Local Government / Municipal Integrated Development Plans.
- Participation and involvement in the validation of the Criteria, Indicators and Standards for SFM being undertaken on behalf of the National Forests Advisory Council.
- Discussions with financial institutions looking at options and opportunities for the financing of small grower and contractor activities.
- Disseminating information and explaining the relevance of government legislation in so far as it relates to small grower activities (e.g. water, forestry and environmental legislation).
- Drafting, in conjunction with the ICFR, a small grower silvicultural manual.

In addition, Mr. Ngubane was accepted onto a Swedish Government sponsored forest certification training course, which necessitated him attending a three week course in Sweden and a two week follow-up course in Tanzania. He successfully completed the course in November 2004. During June, at the request of the University of Florida, USA, Steven was invited to present a paper entitled "Institutional Reform of the S.A. Forestry industry" at the 1st World Congress of Agro-forestry. This latter visit was generously sponsored by the Ford Foundation.

A lot has happened during 2004 and good progress with FSA's small grower development programme has been made. All those involved in assisting in the programme, especially Dfid, DWAF, SEDA, the Ford Foundation and FSA's three regional facilitators are sincerely thanked for their generosity, their commitment and their hard work.

FORESTRY RESEARCH

RESEARCH REMAINS A PRIORITY

Of considerable importance to the Industry is to maintain a strong, relevant and adequately resourced research. The importance which members of FSA attach to research is evidenced by the fact that during 2004, 65% of FSA's industry budget was spent on research. The 2004 research budget amounted to R7.5 million, R6.3 million of which went to fund the ICFR's "core funding" and R1.2 million to FABI to support its forest pathology and entomology activities.

These two Institutes continued to provide the forestry industry with a high level of service, with outputs from their programmes being of considerable relevance. Two events of note took place during the year, namely:

- The incorporation of Forest Engineering Southern Africa (FESA) as a full research thrust under the umbrella of the ICFR.

- The awarding of “Centre of Excellence” status to FABI under the initiative established by the NRF and the Department of Science and Technology. Particularly noteworthy in this regard was the fact that FABI was one of only six organisations to be awarded this status countrywide.

Under the guidance of Prof. Colin Dyer of the ICFR and Prof. Mike Wingfield of FABI, the South African IUFRO bid committee lodged a bid for South Africa to host the 2010 IUFRO World Congress. South Africa’s bid was selected as one of two final bids, the other bid coming from Korea. Unfortunately, IUFRO sided with Korea but in doing so congratulated South Africa on what was a very close race and promising to hold other IUFRO meetings in South Africa.

FSA expresses its sincerest thanks to members for their ongoing support for research and in particular to the Directors, staff and students of the ICFR and FABI for their efforts during 2004.



FSA's ROLE IN OTHER INITIATIVES

FSA participates and plays an active role in a number of initiatives of relevance to the forestry sector but which are not part of any FSA structure per se. A brief resumé of the more important of these is given hereunder.

FORESTRY CONTRACTORS PRODUCTIVITY INITIATIVE (FCPI)

FSA plays a strong role in the affairs of the FCPI, with the Executive Director being the Chairman of the Section 21 Company which runs the FCPI programme. 2004 saw the successful conclusion of Phase 2 of the initiative, which was geared to addressing some of the constraints in contractor activities identified in Phase 1 and to develop a strategy to manage the transformation process towards employment equity and economic empowerment in terms of the government's BBEE thrust. The outcome of this was a publication entitled "Strategy for Broad Based Black Economic Empowerment in the Forest Contracting Environment", copies of which are available from FSA's Johannesburg office.

With the conclusion of FCPI Phase 2, consideration is being given to whether the initiative should be continued or whether the Section 21 Company should be deregistered.

WORKING FOR WATER AND WORKING ON FIRE PROGRAMMES (WfW & WoF)

FSA continued its support for the WfW Programme during 2004 and has made good progress towards achieving its responsibilities, as defined in the Memorandum of Understanding. Members of FSA who are signatories to this MOU have likewise continued to provide invaluable support through staff secondments, operational capacity and the provision of facilities (e.g. vehicles, accommodation etc.), amongst others. Whilst the MOU was due to be renewed and signed during 2004 this was not done, although the industry has agreed that it will renew its agreement. This will hopefully be finalised during 2005.

On the WoF Programme, FSA has committed its support and through members and, in particular, the Forest Fire Association (FFA), considerable material support has been provided. Given the industry's fire risk, this programme is considered to be of extreme value and importance and it is for this reason that a strong partnership needs to be maintained. The assistance that the WoF Programme has already given to the industry, especially during the past two fire seasons, has been significant.

FSA's appreciation to all those involved in the two programmes is given unhesitatingly.

NATIONAL FORESTS ADVISORY COUNCIL (NFAC)

Members of the commercial forestry industry are well represented on the NFAC, with Mr. Dinga Mncube of Sappi Forests being its Chairman and the Executive Director being the Chairman of the Forest Access Committee. Three meetings of the Council and three meetings of the Access Committee were held during 2004. In the Council itself, a number of issues of relevance to commercial forestry were discussed, amongst these being the afforestation licensing process, the development of small growers, the timber supply and demand prognosis, the forest fire situation, the development of Criteria, Indicators and Standards for

SFM and the HIV/AIDS pandemic. The NFAC continues therefore to provide an important link between the forest sector and the Minister of Water Affairs and Forestry. The term of office of members of the NFAC expires during April 2006.

NATIONAL WATER ADVISORY COUNCIL (NWAC)

FSA's Water Consultant, Prof. Peter Roberts, is a member of the NWAC and from all reports, is one of its most active and important members. During 2004 the NWAC held four meetings. As in the case of the NFAC, many issues of importance to the commercial forestry sector were discussed, amongst these being issues related to Catchment Management Agencies and Water User Associations, water services in rural areas, water use by the poor, the policy for reallocation of water and the National Water Resources Strategy. Peter Roberts' membership of this Council has been invaluable in keeping the forestry industry and the FSA water committee in touch with these issues. The term of office of members of the NWAC expires in April 2005 and FSA has nominated Peter Roberts once again for re-election.

WATER AND FORESTRY SUPPORT PROGRAMME (WFSP)

This is the Dfid funded programme to give support to DWAF on a number of issues. The programme commenced in September 2002 and runs until September 2005. The forestry component of the programme has as its goal, the alleviation of poverty and the improvement of the lives of the poor through participating in the benefits from forestry related activities. The programme is structured to achieve five outputs, namely:

- The capacitation of the Chief Directorate : Forestry to manage a process of internal restructuring;
- The development of tools and systems that allow forests to contribute to poverty reduction and improved livelihoods;
- The capacitation of the Chief Directorate : Forestry to enable development, implementation and review of policies and strategies that contribute to poverty reduction and improved livelihoods;
- The formulation of enabling conditions to link poor people to market opportunities within the forestry sector.
- The capacitation of previously disadvantaged individuals and groups to contribute to forestry development.

The Dfid supported FSA small grower initiatives falls within the 4th output mentioned above, as does the important issue of streamlining of the SFRA licensing process. The forestry programme of the WFSP is managed through a Programme Management Committee (PMC) of which the Executive Director of FSA is Vice-Chairman.

FOREST INDUSTRIES EDUCATION AND TRAINING AUTHORITY (FIETA)

FSA was heavily involved during the year under review in FIETA activities, with FSA's Assistant Director serving as the Chairman of both the Forestry Chamber and Audit Committee and a member of its Board and Executive Committee.



FIETA accumulated surplus funds during 2004 as a result of employers not meeting the criteria set to obtain grants. Whilst this is not an ideal situation, it does allow the FIETA Chambers to fund Chamber specific projects which benefit their respective sector of the industry. In the case of the Forestry Chamber, the projects funded through the use of these unclaimed were as follows:

• HIV/Aids profile of contractor employees	R 150 000
• Generation of Forestry Unit Standards	R 1 211 000
• SMME contractor training	R 2 000 000
• Bursaries	R 125 000

The five year life span of all 25 SETA's come to an end on 31st March 2005. Prior to this, during the second half of 2004, the National Skills Authority undertook a study to determine how the current SETA structure could be rationalised. In September 2004 they published their recommendations, the result thereof being the reduction in SETA numbers from 25 to 20.

One of the affected SETA's was FIETA. Their proposal entailed the splitting up of FIETA down the middle of the value chain, with the forestry, sawmilling and pole treating components of FIETA merging with the primary and secondary agriculture SETA's (PAETA & SETASA) to form a new Agriculture, Forestry and Fisheries SETA (AFFSETA). In terms of the other FIETA components (other wood production activities, furniture manufacture and the pulp and paper sector), it was proposed that they be merged with the non-metal manufacturing components of the current Metal and Engineering SETA (MERSETA) and parts of two other SETA's to form another new SETA (MANSETA).

The employer caucus of the FIETA Board felt that that NSA proposal made neither sense nor was in the best interests of employers and employees represented in FIETA. FSA put forward a counter proposal to the NSA at a public hearing in December 2004, the outcome of which being that FIETA was officially re-certificated, in its current form, for a further five year period from 1st April 2005.

The performance of SETA's in general has been criticised in various quarters. However, FIETA, under the leadership of its CEO, Mr. Derek Weston, is one of the top performing SETA's, having run a very successful and highly acclaimed National Skills Fund Project and having exceeded its financial and ETQA targets. Mr. Weston and the FIETA staff are to be congratulated on these achievements and for serving the education and training needs of the Industry so well.

DTI FORESTRY, TIMBER AND PAPER FORUM

During the first half of 2004 this Forum was established to oversee the drafting of a strategic forest sector report, which was to form part of the Department of Trade and Industry's overall Strategic Economic sector Analysis Programme. The need to do this arose from the dti's prioritisation of the forest sector as a sector of strategic value to South Africa. This is considered as an immensely important issue, not only because for the first time the forest sector is being given recognition for what it is, but also because it will highlight the opportunities and constraints to the future development of the Sector. During the latter part of 2004 the Forum commissioned Genesis Analytics to undertake the investigation and to produce a Report, which once completed and accepted, will hopefully help to formulate government's strategic policy for the

development of the sector. FSA serves as a member of the Forum and has gone to considerable lengths to supply whatever information it can to assist the consultants in their work. The Report will hopefully be finalised by the end of April 2005.

APPRECIATION AND ACKNOWLEDGEMENTS

FSA wishes to place on record its appreciation and acknowledgement to all those who have in any way supported and contributed to its activities during 2004.



M.B.P. EDWARDS
EXECUTIVE DIRECTOR
APRIL 2005



FORESTRY SOUTH AFRICA
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2004

Country of incorporation	South Africa
Nature of business	To promote the growth, development and well being of the South African commercial forestry industry both locally and internationally in the interests of all its members
Office bearers	
Chairman	Mr A Thompson
Vice Chairman	Mr M Mason
	Mr B Aitken
	Mr K Breed
	Mr P Day
	Mr K Fenner
	Mr S Ngubane
	Mr C Pienaar
	Mr A Wagenaar
Business address	Head Office Cnr Austin & Morris streets Woodmead Sandton Gauteng
Postal address	P.O.Box 1553 Rivonia 2128
Bankers	Standard Bank of South Africa Limited
Auditors	AM Smith and Company Chartered Accountants (S.A.) Registered Accountants and Auditors
Registration number	017-638NPO

FORESTRY SOUTH AFRICA
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2004

The reports and statements set out below comprise the annual financial statements presented to members:

Index	Page
Report of the independent auditors	32
Balance sheet	33
Income statement	33
Statement of changes in equity	34
Cash flow statement	34
Notes to the financial statements	35 - 38

The following supplementary schedule does not form part of the financial statements, and is unaudited.

Detailed income statement	38 - 39
---------------------------	---------

Approval and statement of responsibility

The executive committee is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The external auditors are responsible for independently auditing and reporting on the fair presentation of financial statements in conformity with South African Auditing Standards. The financial statements have been prepared in accordance with Statements of Generally Accepted Accounting Practice. The executive committee is also responsible for the association's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the executive committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The financial statements have been prepared on the going concern basis, since the executive committee have every reason to believe that the association has adequate resources in place to continue in operation for the foreseeable future. The financial statements which appear on pages 33 to 39 were approved by the executive committee on 22 April 2005 and signed on their behalf by:



Chairman



Executive Director



REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FORESTRY SOUTH AFRICA

We have audited the annual financial statements of Forestry South Africa set out on pages 33 to 38 for the year ended 31 December 2004. These financial statements are the responsibility of the association's executive committee. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the association at 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, appropriate to the business.

Supplementary information

The supplementary schedule set out on pages 38 and 39 does not form part of the annual financial statements and is presented as additional information. We have not audited this schedule and accordingly we do not express an opinion on it.



AM Smith and Company
Chartered Accountants (S.A.)
Registered Accountants and Auditors

Little Falls
22 April 2005

BALANCE SHEET

as at 31 December 2004

	Notes	2004 R	2003 R
Assets			
Non-current assets			
Fixed assets	2	1,263,180	1,345,395
Investments	3	2	2
Current assets			
Accounts receivable		6,714,142	6,865,359
Bank balances		1,557,201	1,758,046
		5,156,941	5,107,313
Total assets		<u>7,977,322</u>	<u>8,210,754</u>
Capital and liabilities			
Capital and reserves			
Accumulated funds		7,516,994	7,856,071
Non-current liabilities			
Borrowings	4	26,765	67,789
Current liabilities			
Accounts payable		433,563	286,894
Current portion of borrowings	4	323,839	209,705
Provisions	5	41,024	35,562
		68,700	41,627
Total equity and liabilities		<u>7,977,322</u>	<u>8,210,754</u>

INCOME STATEMENT

for the year ended 31 December 2004

	2004 R	2003 R
Gross revenue	11,558,743	11,734,251
Other income	39,109	76,401
Operating costs	12,214,167	11,558,020
Operating (deficit)/surplus	<u>(616,315)</u>	<u>252,632</u>

Operating (deficit)/surplus is stated after:

Income		
Profit on disposals of fixed assets	-	31,977
Expenditure		
Auditors' remuneration	18,200	15,000
-Audit fee	17,000	15,000
-Prior year under provision	1,200	-
Depreciation		
-Fixed assets	88,967	82,619
Lease rentals		
-Premises	43,583	44,052
Interest received	289,567	368,641
Finance costs	(12,329)	(25,153)
(Deficit)/surplus	<u>(339,077)</u>	<u>596,120</u>

FORESTRY SOUTH AFRICA



STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2004

	Accumulated funds R
Balance at 1 January 2003	7,259,951
Net surplus for the year	<u>596,120</u>
Balance at 1 January 2004	7,856,071
Net deficit for the year	<u>(339,077)</u>
Balance at 31 December 2004	<u><u>7,516,994</u></u>

CASH FLOW STATEMENT for the year ended 31 December 2004

	2004 R	2003 R
Cash flows from operating activities	91,942	169,902
Cash receipts from members	11,806,828	11,822,477
Cash paid to suppliers and employees	(11,992,124)	(11,996,063)
Cash utilised in operating activities	7.1 (185,296)	(173,586)
Interest received	289,567	368,641
Interest paid	(12,329)	(25,153)
Cash flows from investing activities	(6,752)	(139,304)
Expenditure to maintain operating capacity		
Fixed assets acquired		(6,752)
Proceeds of disposals of fixed assets		32,000
Cash flows from financing activities	(35,562)	2,731,477
Loans raised	5,462	2,731,477
Loans repaid	(41,024)	-
Increase in cash and cash equivalents	49,628	2,762,075
Cash and cash equivalents at beginning of the year	7.2 5,107,313	2,345,238
Cash and cash equivalents at end of the year	7.2 <u><u>5,156,941</u></u>	<u><u>5,107,313</u></u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended at 31 December 2004

1. Basis of preparation

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties where appropriate.

1.1 Revenue recognition

Members' levies and subscriptions are recognised as income.

1.2 Investments

The association's investments in unlisted investments are carried at cost and adjustments are made only where, in the opinion of the executive committee, the investment is impaired. Where an investment is impaired, it is recognised as an expense in the the period in which the impairment is identified.

1.3 Fixed assets

All fixed assets are initially recorded at cost and adjusted for any impairment in value.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives as follows:

Buildings	50 years
Motor vehicles	4 years
Furniture and fittings	10 years
Computer equipment	3 years

Land is not depreciated as it is deemed to have an indefinite life.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

1.4 Taxation

No provision has been made for taxation as the association is exempt in terms of Section 10 (1)(d)(iv)(bb) of the Income Tax Act. Donations by or to the association are exempt from donations tax in terms of section 56(1)(h) of the Income Tax Act.

1.5 Provisions

Provisions are recognised when the association has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.



2. Fixed assets

	2004			2003		
	Cost R	Accumulated depreciation R	Carrying value R	Cost R	Accumulated depreciation R	Carrying value R
Owned assets						
Buildings	930,000	37,200	892,800	930,000	18,600	911,400
Land	240,000	-	240,000	240,000	-	240,000
Motor vehicles	126,789	63,395	63,394	126,789	31,698	95,091
Furniture and fittings	50,856	19,531	31,325	49,980	14,497	35,483
Office equipment	4,297	358	3,939	-	-	-
Computer equipment	100,622	68,902	31,720	99,043	35,624	63,419
	<u>1,452,564</u>	<u>189,386</u>	<u>1,263,178</u>	<u>1,445,812</u>	<u>100,419</u>	<u>1,345,393</u>

The carrying amounts of fixed assets can be reconciled as follows:

2003	Carrying value at beginning of year	Additions R	Disposals R	Depreciation R	Carrying value at end of year
	R				R
Owned assets					
Buildings	930,000	-	-	(18,600)	911,400
Land	240,000	-	-	-	240,000
Motor vehicles	3	126,789	(3)	(31,698)	95,091
Furniture and fittings	37,908	2,495	-	(4,920)	35,483
Computer equipment	48,800	42,020	-	(27,401)	63,419
	<u>1,256,711</u>	<u>171,304</u>	<u>(3)</u>	<u>(82,619)</u>	<u>1,345,393</u>

2004	Carrying value at beginning of year	Additions R	Disposals R	Depreciation R	Carrying value at end of year
	R				R
Owned assets					
Buildings	911,400	-	-	(18,600)	892,800
Land	240,000	-	-	-	240,000
Motor vehicles	95,091	-	-	(31,697)	63,394
Furniture and fittings	35,483	876	-	(5,034)	31,325
Office equipment	-	4,297	-	(358)	3,939
Computer equipment	63,419	1,597	-	(33,278)	31,720
	<u>1,345,393</u>	<u>6,752</u>	<u>-</u>	<u>(88,967)</u>	<u>1,263,178</u>

2. Fixed assets (continued)

	2004 R	2003 R
Freehold property		
Erf 13, Woodmead, Sandton		
At cost - 2002	1,170,000	1,170,000
Accumulated depreciation	<u>(37,200)</u>	<u>(18,600)</u>
	<u>1,132,800</u>	<u>1,151,400</u>

3. Investments

Unlisted shares at cost	<u>2</u>	<u>2</u>
-------------------------	----------	----------

The association held an investment in the following company:

	Number of ordinary shares	
	2004	2003
Unlisted		
Co-operative Insurance Brokers Limited	1	1

4. Borrowings

Liabilities under instalment sale agreement payable over 48 months at an effective interest rate of 14% per annum. Secured by a motor vehicle with a book value of R63,394 (2003 - R95,091)	67,789	103,351
Less: Current portion included in current portion of borrowings	<u>41,024</u>	<u>35,562</u>
	<u>26,765</u>	<u>67,789</u>

5. Provisions

	Carrying amount at beginning of year R	Additional provisions R	Carrying amount at end of year R
Leave pay benefits	<u>41,627</u>	<u>27,073</u>	<u>68,700</u>

6. Commitments

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	115,857	85,587
Later than 1 year and not later than 5 years	<u>251,539</u>	<u>162,449</u>
	<u>367,396</u>	<u>248,036</u>



7. Notes to the cash flow statement

	2004 R	2003 R
<i>7.1 Cash utilised in operating activities</i>		
Net (deficit)/surplus	(339,077)	596,120
Adjustments for:		
Depreciation	88,967	82,619
Interest received	(289,567)	(368,641)
Finance costs	12,329	25,153
Movement in working capital	27,073	(6,574)
Profit on disposals of fixed assets	-	(31,997)
	<u>(500,275)</u>	<u>296,680</u>
Movements in working capital		
Decrease in accounts receivable	200,845	88,226
Increase/(decrease) in accounts payable	114,134	(558,492)
	<u>(185,296)</u>	<u>(173,586)</u>
<i>7.2 Cash and cash equivalents</i>		
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Bank balances	<u>5,156,941</u>	<u>5,107,313</u>

DETAILED INCOME STATEMENT for the year ended 31 December 2004

	2004 R	2003 R
Gross revenue	11,558,743	11,734,251
Other income	328,676	445,042
Interest received	289,567	368,641
Profit on disposal of property, plant and equipment	-	31,997
Rent received	14,400	12,285
Sundry income	24,709	32,119
Total income	11,887,419	12,179,293
Expenditure (Refer to page 39)	12,226,496	11,583,173
(Deficit)/surplus	<u>(339,077)</u>	<u>596,120</u>

DETAILED INCOME STATEMENT

for the year ended 31 December 2004

	2004	2003
	R	R
Expenditure		
Industry expenses		
Environmental Committee	356,399	-
Forest Engineering Southern Africa (LAP)	250,000	-
Forest Engineering Technology	300,000	320,000
Human resources		
-Saasveld	28,800	29,300
-Travel funds	10,000	40,000
-University of Stellenbosch	25,000	4,386
Image promotion	12,295	68,041
Sirex control programme		
-Operating costs	240,000	100,000
-Staff	400,000	400,000
-Study grant	-	140,000
Research		
-ICFR	6,286,781	6,595,973
-Pretoria University (Pathology)	183,397	173,016
-Pretoria University (Entomology)	253,000	238,680
-Pretoria University (FMBC)	-	154,500
-Pretoria University (TPCP)	104,863	98,928
-SAIF	16,000	16,000
Water committee	296,483	189,981
	<u>8,763,018</u>	<u>8,568,805</u>
Operational expenses		
Accounting fees	4,090	-
Assessment rates and municipal charges	30,478	27,694
Auditors' remuneration	18,200	15,000
Bank charges	12,463	11,725
Bursaries	50,000	-
Computer expenses	23,672	25,529
Consulting fees	4,544	5,579
Depreciation	88,967	82,619
Dfid project	100,508	-
Electricity and water	9,583	8,844
Entertainment	69,900	52,669
General expenses	26,255	23,216
Insurance	30,999	46,796
Interest	12,329	25,153
Lease rentals	43,583	44,052
Meetings	106,847	141,947
Motor vehicle expenses	108,299	110,602
Postage	58,277	56,909
Photocopying, printing and stationery	169,730	140,030
RSC - levies	8,902	5,206
Repairs and maintenance	15,310	4,804
Salaries	1,909,974	1,720,568
Security	5,778	4,882
Subscriptions	69,798	23,170
Telephone and fax	126,727	117,541
Travel - local	283,846	249,864
Travel - overseas	33,732	30,629
Web site expenses	40,687	39,340
	<u>3,463,478</u>	<u>3,014,368</u>
Total expenditure	<u><u>12,226,496</u></u>	<u><u>11,583,173</u></u>

FORESTRY SOUTH AFRICA





FORESTRY SOUTH AFRICA