FSA 2010 ANNUAL REPORT

FOREWORD BY CHAIRPERSON

After two consecutive years of cutting costs, we are pleased to note some relief for the Sector in the increased timber volumes sold last year. This must, however, be put in the context of the continued strength of the Rand and the slow increase in prices. These have both contributed to margin squeeze which has meant that the pressure on the Sector to continue to tightly manage costs has not diminished.

As a result, we have continued to lobby Government to assist the country in remaining competitive, especially through the State's ability to address administered pricing. We have repeatedly raised the issues of rail, port, property rates, minimum wages and water costs. The Minister of Agriculture, Forestry and Fisheries must be thanked for her role in raising some of these issues with her colleagues in Cabinet. In the case of Public Enterprises and Water, both those Ministers were subsequently replaced so we have started again to engage with the new Ministries and heads of State Owned Enterprises on these issues. We were also pleased to note that the State President made firm pronouncements on the issue of administered pricing in his recent State of the Nation address. It was further encouraging to note that the Ports Regulator of SA has heeded our calls for common sense to prevail in their proposed cargo due tariffs on timber product exports.

Following years of engagement with the Departments of Agriculture, Forestry and Fisheries, Environment Affairs and Water Affairs, we were extremely gratified by the major progress on the long-outstanding issues of water licences. The water reserve determinations, which were the biggest stumbling block for issuing of licences, have been completed and approved for the Eastern Cape and KZN and the number of licences issued has increased significantly. Similarly, as a direct result of our continued partnership with Government, the revised EIA regulations now make it easier and cheaper for small and medium growers to meet the EIA requirements. Lastly, in the case of the Eastern Cape, DAFF are funding an area EIA covering 28 000 ha which will facilitate larger scale establishment of plantations in those areas. The venture capital, however, to finance the establishment of the trees themselves, remains a challenge for most new entrants and we continue to engage with DAFF to find ways to overcome this.

On transformation, we are very proud of the country-leading performance of our Industry. The Charter Council welcomed the professional and progressive leadership of Mr Pasco Dyani who was appointed by the Minister as the new Chairperson. The Council commissioned an independent Report which showed that overall the Industry is about halfway towards fulfilling its objectives in terms of the Charter with only a quarter of the time having elapsed. That is a 100% outperformance by the Sector on the expected achievements and there have been major gains since then too. This has helped us to lobby more vocally for Government to play its part towards ensuring the transformation and growth of the Sector.

While land restitution has been bedevilled by the lack of funding for settling new claims and supporting new landowners, we are pleased to note the progress that we continue to make in this crucial area. At a recent event held in Mthatha, the State President saw first-hand the benefits which can arise from a partnership approach to land restitution as he handed over R94 million in lease rental monies to communities. We were grateful for the opportunity afforded to FSA to speak at the event about the even better models that we now have in place for claims in forestry areas. The new direction being taken by Government to focus, in partnership with the private sector, on the re-capitalisation of already transferred land and on the development of the former "homeland" areas is greatly welcomed and again we provided examples of how we are already involved in such initiatives.

Given the difficult trading conditions for most of the Sector, the model used in FSA to keep our overheads low and rather outsource work to specialists from within our members or to professional service providers, has served us well during this difficult period. This has resulted in minimal increases in the levies we require to run the Association. We thank our Association staff and partners for their continued dedication to serving our interests as diligently as they do.

Lastly, 2010 saw some new players enter the sector in Mpumalanga and Limpopo and we would like to extend our warmest welcome to all new entrants and particularly to United Forest Products, Reatile Timrite and Bedrock MS who have joined us. We would encourage these new members, none of whom are strangers to the Industry, to take full advantage of their membership by participating in the organisation's structures and the partnerships it has with its implementing agents and Government.

I would lastly like to thank my Vice-Chairperson, Mr Dinga Mncube, the Executive Director, Michael Peter, and the entire FSA Executive Committee for another year of excellent co-operation and collegiality. It has been a privilege to serve the Association as your Chairperson.

Viv McMenamin

CHAIRPERSON
FORESTRY SOUTH AFRICA

INTERNAL FORESTRY SOUTH AFRICA MATTERS

FSA MEMBERSHIP

FSA's membership base faced some challenges during 2010. The closing of the NCT office in Nelspruit saw the formation of a new co-operative called United Forest Products who were welcomed into the FSA membership base and who have continued to support the Association. Mondi's disposal of its plantations in Limpopo and parts of Mpumalanga saw a further large area go out of the FSA membership base through the acquisition of most of these plantations by Bedrock MS and Reatile Timrite. The portion sold to Sappi, however, remained in the membership base. Other smaller transactions also affected the membership base. It is encouraging to report that following representations made to them by FSA, both Bedrock MS and Reatile Timrite have agreed to become FSA members. The Association will continue to interact with other new players in the Industry to encourage them to join. All the corporate growers and the vast majority of the 1 100 private commercial timber farmers and more than 20 000 small timber growers are members of the organisation through either direct membership or indirectly through membership of timber co-operatives and other bodies. All-in-all this membership represents over 90% of all those involved in the growing of commercial timber crops in South Africa.

United Forest Products, as the newest member of FSA, are thanked for their commitment to supporting the Association and all members are thanked for their continued loyal support during these past two years which has been without doubt the hardest faced by our Industry in the last 30 years.

FSA COMMITTEES

Executive Committee

Three scheduled Executive Committee meetings were held during the course of the year under review.

For the third year in succession and to ensure continuity on the key strategic focus areas for the Industry, the Medium Grower Group, as it had done two years previously, forfeited its right to the Vice-Chairpersonship of the Executive Committee, thus allowing Mr Mncube, a Large Grower Group representative, to fill the position. Ms Viv McMenamin, another Large Grower Group representative, was unanimously elected as Chairperson for the 2010/11 year.

As reported in last year's Annual Report, members agreed to increase the small grower representation on the Committee from two to three so as to allow for representation from Southern KZN (prior to that only Limpopo and Zululand had been represented). The necessary amendments to FSA's Constitution to provide *inter alia* for this third small grower representative on the Executive Committee were ratified at a Special General Meeting held immediately before the 2010 AGM.

The Executive Committee, as constituted on the last day of the 2010 Financial Year, is listed at the front of this Report.

Group Committees

The decision two years ago to combine the small, medium and large grower Committees has proven to be a great success, not just in the networking and collective decision making opportunities that this has provided but also in the cost savings which have resulted.

Nine combined meetings, known as "Annual Regional Meetings", were held in various forestry regions across the country during February 2010. These are viewed as being important meetings as it not only gives the Association an opportunity to report back to our members on its activities during the previous 12 months, but also for members to raise any issues of concern.

In addition to these regionally based meetings, three "General Committee" meetings, comprising representatives from the various Regional Committees were held centrally in and around Pietermaritzburg in April, July and November.

A listing of members of each of the respective Group Committees is given at the front of this Annual Report.

Working Committees

In order for the Executive Committee to provide strategic direction to the Association they need inputs from the rest of the FSA structures. This comes in part from the General Committee which feeds valuable information and opinion into the Executive Committee from both corporate and private growers. Due to the "high-level" nature of these Committees' deliberations, they try not to focus on specific issues in great detail as this is left to a number of Working Committees and *ad hoc* Task Teams which focus on very specific issues and which are convened if and when necessary. Given the increasing Industry concern surrounding transport matters, the Executive Committee agreed to the establishment of an FSA Transport Committee. The Committees and Task Teams which were most active during 2010 dealt with transport and environmental issues.

NON-FSA INDUSTRY COMMITTEES

In addition to the various Committees that are run under the auspices of the Association itself, the pivotal role that FSA plays in Industry affairs necessitates its staff and in some cases, members, being represented on a large number of Committees run under the auspices of other Industry related bodies and institutions. All these organisations either receive direct funding from FSA or alternatively have an impact on the environment in which the Industry has to operate, the more important of which being the following:

INSTITUTE/ CONVENOR	COMMITTEE/STRUCTURES
(i): ICFR	Board of Control Sirex Control Programme -Steering Committee
(ii): FABI	TPCP Board of Control TPCP Finance Committee CTHB Board of Control
(iii): NMMU (Saasveld)	Forestry Advisory Committee
(iv): Stellenbosch University	Forestry Advisory Committee
(v): FIETA	Board Forestry & Pulp and Paper -Chamber Audit Committee
(vi): Provincial LAACs	Members
(vii): DAFF	Minister's Advisory Council (NFAC) CEO's Roundtable
(viii): DAFF-DWEA-FSA	Technical Task Team
(ix):Forest Sector Charter Council	Charter Council Finance Committee Land Task Team Contractor Codes Task Team
(x): The Wood Foundation	Executive Committee

NON-INDUSTRY AFFILIATED COMMITTEES

The overall environment in which the Industry operates is influenced and impacted upon by not only those bodies and organisations which are aligned directly to the Forestry Industry but also by a wide range of non-Industry affiliated bodies. It is thus important that FSA has, either through its staff or members, representation on the Committees and structures of these bodies to ensure that its members' interests are promoted. Amongst the most important of these are Business Unity South Africa, the Agricultural Business Chamber, AgriSA's Commodity Chamber, Kwanalu's Property Rates Task Team (which is chaired by the FSA's Assistant Director), Working for Water, Working for Wetlands and Working on Fire Programmes and the SANBI Grasslands Biodiversity Forum.

CO-OPERATION WITH OTHER INDUSTRY ORGANISATIONS

FSA's very active involvement in the establishment and running of the "The Wood Foundation", has started to produce benefits. Instead of each forestry and forest products Association trying to run independent marketing and communication campaigns, more efficient promotion of the Sector is achieved by doing this collectively through the Wood Foundation in which all the forestry and forest product Associations are represented. This has resulted in FSA forging closer links with our more traditional partner organisations in the Sector such as the Paper Manufacturers Association of South Africa, Sawmilling South Africa and the SA Wood Presevers. In addition to this interaction there are a host of other organisations representing the utility pole, truss manufacturing, chemical preservative manufacturing, timber frame building and thatching Industries who now also support the Wood Foundation. The close co-operation experienced and the willingness to work for the common good is indeed most encouraging and valued by FSA.

The Forest Sector Charter Council has been another platform through which the various sector Associations co-operate and lobby collectively on issues of common concern and which has turned out to be a very effective forum for raising some of the binding constraints to transformation and growth of the Industry. So, in this arena as well as other arenas such as FIETA, FSA has continued to have a very productive and close relationship with various other Industry bodies but particularly so with the Paper Manufacturers Association of SA (PAMSA), Sawmilling South Africa (SSA), the SA Wood Preservers' Association (SAWPA) and the SA Forestry Contractors Association (SAFCA).

CO-OPERATION WITH GOVERNMENT DEPARTMENTS AGENCIES AND PROGRAMMES

During 2010 there was a significant strengthening of existing co-operation with a number of Government Departments, Agencies and Programmes, including our involvement for the first time in the CEO's Roundtable which is hosted by the Director-General of DAFF. The outcomes of these interactions are reported in the various sections of the Annual Report.

Department of Agriculture, Forestry and Fisheries (DAFF)

As the Department responsible for forestry matters, FSA's regular engagement and partnering where appropriate with DAFF is crucial. Some of the more important interactions that occurred during the year are as follows:

- The engagements in the DAFF-DWEA-FSA Task Team have seen some major breakthroughs on the long-standing challenges concerning afforestation licensing although these have presented some new ones too.

- Several engagements were held with the DDG: Forestry in which the key issues requiring support or interventions were discussed. As a result of these engagements, Minister Joemat-Pettersson wrote letters to the Minister of Water and Environmental Affairs and Public Enterprises appealing for action on the issues of afforestation licences, water tariffs and rail and port tariffs and related efficiencies respectively. The Minister and her staff and Dr Rampedi in particular, are sincerely thanked for these interventions and it is hoped that they will follow up on them with the newly appointed Ministers in those portfolios.

- FSA was invited to co-host DAFF's annual "Forestry Indaba" (which in 2010 was held in White River) and to give a presentation to the Indaba on the future of the Forestry Sector in South Africa. The strong involvement of our members at the workshop is gratefully acknowledged as it enabled us to be represented in all the Commissions which met over the three days of the event.

- FSA and Sector CEOs were invited to two meetings of the newly formed "CEO's Roundtable" in 2010. Although disappointing to note that the first one had no forestry issues on the Agenda, following our input in that meeting, forestry featured prominently in the Agenda of the second meeting. These meetings are chaired by the Director-General of DAFF and are intended to be high-level meetings dealing with strategic Government and Sector issues.

Other Government Departments and Initiatives

A brief summary of some of the more important interactions that FSA had, either individually or in collaboration with other Industry bodies, appears below.

- Through our association with PAMSA, FSA was invited to a meeting with Minister Nkwinti of Rural Development and Land Reform which had been facilitated by Business Unity SA (BUSA). In the meeting the Minister acknowledged the innovative partnership models which were approved for settling forestry land claims and which were being implemented.

- Two further meetings, again made possible through our association with PAMSA and facilitated by BUSA, were held with the Department of Environmental Affairs' Climate Change chief negotiator to ensure that forestry and the forest products Sectors featured prominently in the National Climate Change Strategy which would form the basis for South Africa's negotiating position at COP 16 in 2011. FSA has nominated Dr John Scotcher to represent the Sector on the Task Team that DAFF are convening to develop this strategy further.

- Following interactions with the Mpumalanga Government which were facilitated by Sawmilling South Africa in 2009, FSA co-hosted and presented at a workshop with the Mpumalanga Provincial Government in 2010, aimed at developing their Provincial Forestry Sector Development Plan. Furthermore, FSA was actively involved in a number of KZN Provincial Government initiatives regarding land reform through the KZN Agribusiness Development Agency (ADA) and forestry sector development through the KZN Forest Sector Initiative (FSI) Forum.

- In addition to being represented on the Forest Sector Charter Council, FSA has also participated in the Council Task Team established to develop the Codes of Good Practice for Contracting. The FSA Executive Committee approved the Industry Draft Codes during the year and these were submitted to the Council for final ratification.

INTERNATIONAL CO-OPERATION

During the year under review FSA continued its membership and participation in the UN's Food and Agriculture Organisation (FAO) Advisory Committee on Paper and Wood Products which is a Committee made up of the Industry Associations of most timber growing countries. This is the only private sector Committee in either forestry or agriculture which is supported formally by the FAO and has been operational for more than 50 years. Through this Committee FSA helped produce the FAO's position paper on climate change, which was subsequently submitted to the COP15 Climate Change Convention held in Copenhagen in November 2009. The one positive outcome of COP 15 was the recognition of plantations and forest products as means of mitigation which had until that time not been recognised. This was reinforced during the subsequent discussions in Cancun in 2010 and will form the basis of the industry inputs to DAFF and DEA so as to ensure that this is provided for in the South African Climate Change Strategy.

In addition to serving on the ACPWP, the Executive Director was invited to serve at no direct cost to FSA on another FAO body called the National Forest Programme Steering Committee which is the body that allocates donor funding to countries to help them develop their national forest programmes. South Africa is a recipient of such funding which has amongst other things funded the National Integrated Forest Protection Strategy, the Small Grower Toolkits, the Sawlog Strategy and several other projects in South Africa.

At its 2010 meeting, the Executive Director invited the NFP Steering Committee to host its February 2011 meeting in South Africa instead of in either Rome or New York which is where the Steering Committee has met annually for the past 9 years. The invitation was accepted and so for the first time the meeting will be held in a partner country where FSA will be able to provide the members of the Steering Committee and donors with an opportunity to see the local Forestry Industry in general and to see how their support is benefitting participants in forestry in particular.

FSA 2010 ANNUAL GENERAL MEETING

The 8th Annual General Meeting was held on 29 April 2010 at the Fern Hill Hotel and Conference Centre in Tweedie, outside Pietermaritzburg, KZN. The AGM was well attended by members.

The DDG: Forestry of the Department of Agriculture, Forestry and Fisheries, Dr Rampedi, gave the keynote address which focussed on Government's recognition of the importance of the Forestry Industry, especially due to its role in rural development and also on the challenges faced by the Industry. She also called on the Industry to support the country's bid to host the next World Forestry Congress which would be held in 2015.

Other speakers including Mr Gerard Busse, who gave a talk on The Wood Foundation which has been established as the industry's shared marketing and promotion vehicle supported by the various Sector Associations and Government. Dr John Scotcher gave a presentation on the complex legislation that has evolved over time to govern the simple act of planting trees for commercial forestry and his proposals as how this could be simplified.

A Special General Meeting was held to coincide with the AGM in order that changes to the Constitution could be ratified to allow for an additional Small Grower Group representative to serve on the Executive Committee.

FSA would like to thank the abovementioned speakers as well as those many members who attended this very worthwhile event for their participation.

FSA STAFF MATTERS

It was with great sadness that we reported the passing of Mr Isaac Mudau in September of 2010. Isaac was FSA's Office Assistant in the FSA Head Office for more than 25 years and was a loyal employee.

On a happier note we welcomed Ms Precious Singo who joined FSA to take on some of the duties of the Office Assistant with others being shared by our Secretary, Mrs Ann Blake.

FORESTRY INDUSTRY MATTERS

FOREST PROTECTION

Pests and Diseases

The ICFR was appointed by DAFF, with funding obtained from the Food and Agriculture Organisation hosted National Forest Programme, to produce an Integrated Forest Protection Strategy for the Sector. This is a commitment made by Government in the Forest Sector Charter and for the first time the Sector has a Strategy which will address the multiple risks of pests, diseases and, importantly, also fire. At the time of writing, the Strategy has already been redrafted to take into account the comments received from Industry members, to whom it was circulated for comment, and has subsequently been submitted to DAFF for ratification.

The ICFR team, under the leadership of Prof Colin Dyer, and DAFF are sincerely thanked for this monumental body of work. There has never been a National Strategy dealing with any of these key threats, let alone an integrated one dealing with all of them. It is hoped that DAFF will be encouraged to make resources available to augment what Industry already spends every year on this key focus area, which is of greatest risk to small and medium timber growers, in order to effectively implement the Protection Strategy.

Another development of immense significance for the Industry was the completion of the FABI biological control facility during the year under review. FABI and the University of Pretoria are to be thanked most sincerely for having fought to get this facility established at no cost to the Industry (although we will be the principal beneficiaries). Having this state-of-the-art facility at the disposal of the remarkable team under the leadership of Prof Mike Wingfield, has already produced benefits for the Industry in terms of nematode production and a much better research environment for the scientists, who work tirelessly on countering our pest and disease threats.

Sirex

- After more than one year of waiting, the new MoU with DAFF on Sirex has still not yet been signed. Dr Rampedi and her team are, nevertheless, thanked for their efforts to date in dealing with their Department's legal services and are encouraged to keep up the pressure for funding, particularly as the Industry had to fund its own as well as the Department's contribution during 2010.

- Mr Philip Croft's secondment to the ICFR as the FSA Sirex Co-ordinator has ended and Philip has now been appointed permanently by the ICFR in that capacity. Mondi Shanduka are sincerely thanked for their continued willingness over many years to second Philip to this Programme which is so important for our Sector.

- The wasp has now spread as far as Helvetia Estate in Mpumalanga which is consistent with its annual rate of spread.

- As had been presupposed by the researchers, Sirex has also re-emerged in the Southern Cape and the control programme has responded accordingly to this.

- The number of nematodes required for inoculating in 2011 is almost double that which had been expected, demonstrating the unpredictable nature of dealing with pests. This also demonstrates the value of having a world-class team of scientists and managers and a state-of-the-art biological facility to produce the appropriate response to such threats.

- The members of the Sirex Control Programme under Prof Colin Dyer, which consists of the researchers, contractors, Government and crucially our members' representatives, are sincerely thanked for their extraordinary effort in the control of this insidious pest.

Fusarium circinatum (Pitch Canker)

- In April 2010 the Executive Committee approved the establishment of the S.A. Pitch Canker Control Programme under the auspices of FSA and led by Dr Andrew Morris, with a Steering Committee and a research and operational working group.

- Various research projects, including several under FABI and the University of Stellenbosch have been completed or are in progress, all of which are revealing new insights into this disease which has manifested in mature trees. Importantly, the work done around developing a reliable asymptomatic screening tool and improved nursery practices in the control of this disease are key.

Thaumastocoris

- We are pleased to report that a parasitoid has been located in Australia and attempts are being made to establish a viable culture at FABI. Once this is achieved, the biological studies needed to gain permission for the release of a foreign organism will follow.

Leptocybe (Eucalyptus Gall Wasp)

- This very destructive pest is starting to present new challenges for our Industry in attacking hybrid eucalyptus trees which had seemed less susceptible. This is of great concern, not just from a commercial perspective but also because this is the hybrid that is grown by most small growers in the country, making them particularly vulnerable should this tendency increase.

- The work on the already identified biological control agents continued during the year and there is an early indication from FABI that they may have found a new "super-parasite" which could offer much greater control against Leptocybe.

As mentioned, developing appropriate, effective and sustainable responses to the many current and potential pests and diseases which we face, is a very demanding challenge, made more so by the erratic nature of these organisms and their interaction with the plantation environment. For this reason FSA would like to express its sincerest gratitude to the many managers, researchers, technicians and contractors in FABI, the ICFR, PPRI and to those in-house researchers and managers in our Forestry Companies. Without their passion, professionalism and diligence in their efforts to combat these challenges, we would be far more severely impacted by pests and diseases in South Africa.

Damage Causing Animals

In response to a presentation on the escalating damage caused by baboons in the Industry, funding has been provided for the development of a Damage Causing Animal Strategy which must provide sound research into damage causing animals, especially baboons, but also small mammals, antelope and others which have significant impacts on timber growers and provide recommendations on how such damage can be mitigated.

Forest Fires

Once again we are pleased to report that in 2010 fire damage was relatively limited. This was in no small part due to the efforts of fire managers around the country.

As mentioned earlier, the National Integrated Forest Protection Strategy will go a long way to ensuring further co-ordination among those involved in this ever present and often devastating threat to our sector. In the meantime there are some worrying trends in certain parts of the country. These are:

- Many FPA's are either dysfunctional, non-existent or, if they do exist, do not have any State participation as is required by law.

- Experience has shown that where FPA's are effective they employ a full-time professional as their FPO and are well resourced. However, many do not have such FPO's.

- FSA has lobbied DAFF for urgent support in the following areas, to make FPA's more effective.

    ¤ Providing funding to pay for FPOs' salaries.

    ¤ Making sure State bodies join their local FPAs.

    ¤ Support for employing of additional fire advisors to assist in establishment and oversight of FPAs.

FSA would like to express its sincere thanks to all the fire advisors, fire managers, fire fighters and our partners in the Working on Fire Programme for their tireless efforts which are often only properly appreciated when things turn for the worse. We would like to again urge DAFF to give attention to the issues we have raised with them as these are interventions that do not require massive amounts of funding but will have a massive positive impact if implemented.

Timber Theft

A meeting of a select group of Industry personnel dealing with timber theft issues met during the year to develop some recommendations on how to address this increasingly worrisome threat to our members. They have proposed the following specific interventions:

- **Education:** Aimed at growers, police and magistrates through the production of posters and pamphlets etc.

- **Monitoring:** Through the collection of statistics.

- **Communication:** Between all stakeholders including Timber Theft Forums.

- **Industry Norms:** Developing standardised procedures & documentation.

In an endeavour to combat the escalating levels of timber theft in Mpumalanga, the Mpumalanga Timber Theft Association was formed in 2010. They plan to employ a full-time "Forestry Loss Control Officer" to co-ordinate and implement strategic actions. While FSA is not well placed to appoint such co-ordinators of different activities in the various timber growing regions, these initiatives can and should be implemented under the banner of the FSA's regional structures.

FORESTRY RESEARCH

As has been the case for several years, an increasing percentage of FSA's budget goes towards Forestry Research. This was no different in 2010 with more than 62% of the budget allocated to these crucial activities which are carried out through our partners in the ICFR and FABI. Further details of this can be found in the Audited Financial Statements at the back of this Annual Report. Having these Institutions supported by Industry also enables a significant amount of financial and operational leveraging to occur.

Many of the programmes which they manage are augmented by funding they receive directly from other sources as well as funding which is channelled through FSA and directed at their research programme. Examples of this are DAFF's funding for Sirex, SANBI's funding for Grasslands and THRIP funding. We note with regret, however, that this latter funding has not only been increasingly difficult to access over the last few years but what has been obtained has been decreasing in magnitude.

While DAFF must be sincerely thanked for the funding that it does contribute towards research in South Africa (noting the challenges faced this year even to provide the Sirex funding) and which helps them to very efficiently contribute to their obligations in respect of research in the Sector, this funding is a very small fraction of what is needed and indeed a much smaller fraction of what the industry spends every year on research.

On a more positive note, we are very pleased to report that the Forestry Research and Development Strategy was approved at the Forestry Branch level in DAFF and Dr Rampedi is thanked for this. What is needed now is for the funding that the strategy requires to be requested from the National Treasury by DAFF, so that they can more meaningfully support R&D in the Sector. The implementation of the Strategy is becoming increasingly important for all Industry players but especially important for smaller operations.

The majority of the funding that FSA provides is for the core funding of the Institute for Commercial Forestry Research (ICFR). This core funding in essence funds the basic infrastructure and core competence needed by the Institute to maintain its capacity to deliver high quality and relevant research outcomes to the South African Forestry Industry. Given the increased scope of research that the ICFR is engaged in, a proposal was tabled to the Executive Committee to increase the core funding component to the ICFR to, *inter alia*, ensure their operational sustainability and reduce the high level of staff turnover seen in past years. At the same time a proposal was made, due again the increased functions of the ICFR which are of benefit to all timber growers and because the publications and communication of most of the research outcomes is available to all growers, that FSA seek to have a uniform levy instead of the dual levy that is currently provided for. Both these issues will be put to members during 2011 for consideration.

With regards to the ICFR specifically, during 2010 there were a number of key milestones which deserve mention.

- As reported, the National Integrated Forest Protection Strategy was developed using funding secured through DAFF from the FAO National Forest Programme Facility on which Steering Committee FSA's Executive Director also happens to serve. The Strategy was submitted to DAFF for approval and it is hoped that once approved and once DAFF have secured additional funding, this can form the basis for an expanded MoU between FSA and DAFF dealing with all aspects of forest protection.

- All the key research and technical posts have been filled at the ICFR and the high staff turnover which was seen in recent years now seems to be less of a risk to the Institute.

- The South African Ground-Based Harvesting Handbook, partially funded by FIETA, was produced and is available from the Institute.

- The Institute has been working to develop the relationship further with UKZN which must be welcomed as there are significant potential operational and financial gearing opportunities that could result. UKZN are also thanked for their willingness to explore these opportunities.

More detailed information on the ICFR and its extensive research programme, activities and progress for 2010 can be found in the ICFR's Annual Research Review 2010 which is available in hardcopy and electronically on their website (www.icfr.ukzn.ac.za).

With respect to FABI, while much of the progress in the crucial research they do for the Industry, has been described under the Section of this Report dealing with Pests and Diseases, it is also with much gratitude to FABI and the University of Pretoria that we report that the construction of the Biological Control Facility was completed in 2010. While already fully operational, it will be officially launched in 2011.

Members will recall that the intention was that FSA and the University of Pretoria would jointly fund the building of this facility but when for economic reasons we were unable to do so, Prof Mike Wingfield and his team were able to convince the University to fund the entire construction of this facility. This again demonstrates the leveraging capability of our research partners when they are well supported by Industry. Both Professors Colin Dyer and Mike Wingfield and their teams are sincerely thanked for the crucial work they all do towards the protection and development of our Industry. We are most fortunate to be able to rely on these partners, both of which are held in high regard internationally to provide for our research and forest protection needs.

While we have noted some of the challenges that DAFF still face in respect of funding for forestry research, it is even more important that we record our gratitude to DAFF for their support and leadership in a number of areas. The Forestry Research and Development Strategy has been developed and DAFF co-hosted the 4th Forest Science Symposium held in August 2010 which was an excellent showcase of the latest research findings in many of the key areas affecting our Industry. We are also grateful to DAFF for their increased involvement in the multi-party programmes such as the Sirex Control Programme, the TPCP and the ICFR. It is only through such partnerships that we can effectively and efficiently respond to the many challenges facing the Industry and participants in it.

While FSA mainly provides direct funding to the ICFR and FABI for forestry research, there are a number of other institutions and individuals who are contributing to forestry research in South Africa. Notable among these are the Universities of Stellenbosch and NMMU (Saasveld), the CSIR, the Plant Protection Research Institute (PPRI), the University of KwaZulu-Natal (outside of the ICFR) and the Institute of Natural Resources.

The local Forestry Industry is indeed fortunate to have such a wealth of expertise in the country which supports the forestry research agenda. FSA is grateful to all the people in these Institutions for their contributions which provide such benefit to the Industry.

AFFORESTATION ISSUES

We are truly delighted to report that after many years or lobbying both by FSA and by officials in the Departments of Agriculture, Forestry and Fisheries and Water and Environmental Affairs, a number of breakthroughs have been made.

Firstly, the water reserve determinations for the areas with forestry potential in both the Eastern Cape and KZN were finalised in 2010. These had been a crucial stumbling block for years and the Department of Water Affairs is sincerely thanked for the massive effort they put in during 2010 to complete this key body of work. While there were more than 40 officials at one point deployed to KZN alone to resolve the issue and we thank all of them, we must make special mention of Ms Deborah Mochotli and Mr Charles Marete of DWA, without whose intervention we would not have achieved these milestones. FSA and its members are grateful to them for helping to overcome this long-standing obstacle to afforestation in these Provinces.

Secondly, the publication of revised EIA Regulations by the Department of Environmental Affairs has assisted in overcoming two further long-standing challenges. Firstly, for small and medium growers, the increase in the threshold requiring an EIA for a forestry licence application from 5 ha to 100 ha will bring much needed relief and reduced costs for smaller applications.

Furthermore the provision in the revised Regulations for area-based EIAs for designated activities is greatly welcomed. DAFF is in the process of commissioning such an EIA for 28 000 ha in the Eastern Cape which will facilitate applications for more than 100 ha which would then be supported by the area-based EIA.

All of the above have contributed to significant increases in licences being issued. As at November 2010, 77 licences for 1 962 ha had been issued and a further 1 051 licence applications for 10 850 ha were pending in KZN. In the Eastern Cape 84 licences, mainly for genus exchange, covering an area of 8 651 ha had been issued. A further 175 licence applications for 41 114 ha were pending.

WATER ISSUES

Despite the good progress being made regarding the issuing of licences, as reported upon above, there are nevertheless a number of legislative areas which remain a challenge for our Industry and which we have been working very hard with the authorities to resolve.

Recommendations from FSA were sought by the Charter Council on these issues in an attempt to elevate the issues where necessary. Dr Scotcher has worked tirelessly to provide clarity on the issues and to make pragmatic recommendations on the legislation, including presenting these submissions in all the Licensing Assessment and Advisory Committees where the three Government Departments convene to consider licence applications.

Below is a summary of the key legislative issues and the status of each.

Amnesty Period For Authorisation Of Unlawful Plantations

This was proposed to “formalise” the legal status of plantations established without a water use licence under the National Water Act (NWA) and would be appropriate for plantations established without the necessary water use rights under the NWA and not more generally.

Area Exchange

It was proposed that regulations or guidelines under the NWA be promulgated to enable the issuing of water use licences which authorise water use in a particular area (specifically a farm) when areas of afforestation are exchanged within the demarcated/authorised area (known as area exchange).

Genus Exchange

The University of KZN have been commissioned by FSA to assess the long-term impacts on the stream flow regime of eucalyptus *vs.* pine plantations to enable the free exchange of genus on a farm/management unit/demarcated area (genus exchange). The concept has been presented at the SFRA LAACs in great detail, with the emphasis on the Water Research Commission findings that the modelling of low flows is extremely site specific and poorly understood at the conceptual level and the estimates of stream flow reduction are not appropriate for detailed on-farm decision making, but are rather mainly suitable for broad preliminary national or regional planning. It has further been submitted to the Department of Water Affairs (DWA) that the exchange of genera does not constitute a change in water use – the water use is still a stream flow reduction activity in terms of the NWA and there should therefore be no need to reapply for a water use licence when exchanging genera.

Irregular Prioritisation of Requirements under the Water Allocation Reform Policy

We have submitted to DWA that legal opinion obtained states that their prioritisation of certain requirements in their Water Allocation Reform policy is irregular in the consideration of water use licence applications.

Recognition of BBBEE Scorecard in fulfilment of Section 27(1)(b)

We have also submitted to DWA that they should use an applicant's Forest Sector BBBEE scorecard in the consideration of water use licence applications and specifically in terms of the Section 27(1)(b) requirements of the NWA.

While DWA at one stage refused to accept the degree of compliance with the BBBEE scorecard to satisfy the provisions of Section 27(1)(b) of the NWA regarding the need to redress the results of past racial and gender discrimination, consistent pressure applied by the LAACs has resulted in the recognition of the scorecard by DWA. This is especially important given the country leading progress on BBBEE that has been made by our Industry. However, DWA's insistence that applicants provide a plan of action to reach a higher level of BBBEE compliance is questioned, as the Charter is the plan of action for the Industry as well as for individual companies.

Claimed Land

The insistence by DWA that they will not consider water use licence applications pertaining to land against which a land claim has been lodged is both irregular and in fact not supported by land restitution legislation or policy. We have submitted this view to DWA and they have requested FSA to provide them with a legal opinion to this effect which we are in the process of obtaining.

General

While it is clear from the above points that there is still some way to go to in resolving these issues, it is equally true that there has been a marked improvement in the way in which the Sector is regarded by officials in all three of the authorising Departments. In particular, the willingness of Ms Naomi Fourie and her other colleagues in DWA to entertain pragmatic solutions to the legal obstacles is much appreciated.

We look forward to finalising all of these outstanding issues during 2011 as these are issues that can be resolved without significant expense to the State and around which FSA has, at its own cost, sought to assist the State.

ENVIRONMENTAL ISSUES

There has been progress on a number of key outstanding environmental issues and there have also been some new issues to deal with in 2010. The Environmental Management Committee which is Chaired by Dr Dave Everard, met several times during the year. Some of the more important outcomes are highlighted below.

Development of a National Certification Standard

Professor Michal Brink has been appointed to finalise the South African FSC Indicators and Verifiers, using the draft National Voluntary Certification Standard for Plantations in South Africa which was produced by the Institute for Natural Resources.

The Small and Low Impact Managed Forests (SLIMF) standards will form the basis to ensure that compliance is not beyond the capability of small and medium timber growers, while large growers will be required to meet additional scale-specific requirements.

This work will be funded by the Grasslands Programme and the FSC budget from DfID held by FSA.

Forest Stewardship Council Certification

Continued interest was shown by FSA members in achieving Chain-of-Custody Certificates during the year with 118 having been issued by the end of 2010 - a 10% increase in the 6 months from June 2010. There were two additional forests that were certified during that same period.

An advertorial on FSC in South Africa was placed in the Business Day "Earth" magazine which is distributed to all Business Day subscribers. The advertorial was paid for by the Grasslands Programme.

FSC have finally made a commitment to vote on the new Principles and Criteria in November 2011 and the FSC General Assembly will take place in Malaysia from 26 June to 1 July 2011. FSA will be represented at the General Assembly to ensure that we are able to lobby for the new P&C.

Grassland Biodiversity Conservation Programme

The SANBI Grasslands Programme, which is managed by Steve Germishuizen, continues to produce extremely useful tools and information for the management of grasslands and high conservation areas. It also continues to serve as an outstanding barometer of how the South African Forestry Industry manages grasslands and other unplanted areas associated with plantations and in 2010 this again received high praise.

The external mid-term review of the Grasslands Programme took place during November 2010 and was conducted by Professor Philip Tortell who is based in New Zealand. The assessment of the Grasslands Programme in South Africa revealed that the plantation industry is well ahead of all the other sectors in the country and it is ranked among the top programmes of over 800 similar programmes globally.

This is no mean feat and is a testament to the outstanding sustainable management of the plantation Industry in South Africa and to the excellent job that Steve Germishuizen and the rest of his colleagues involved in the Programme are doing.

The Programme is also assisting in the revision of the FSA Environmental Guidelines, first published in 2002, and there are plans to make these available electronically.

Anthea Stevens from the South African National Biodiversity Institute, Steve Germishuizen and all the colleagues associated with the Programme, are sincerely thanked for their interest and support to the Industry in ensuring that the environmental management issues in the plantation Industry continue to remain central to the sustainability of the Industry.

Environmental Legislation

Aside from revision of the EIA Regulations reported on earlier in this Report and the legislative challenges around water, there are many other legislative and regulatory amendments that our Environment Consultant, Dr John Scotcher, has been attending to on our behalf to bring more pragmatism into the regulatory environment and to try to get alignment with other legislative prescripts affecting the Industry.

Some of the key proposals are:

- To align the authorisations under the National Environmental Management Act (NEMA) and the NWA, especially those proposed around the amnesty for unlawful afforestation.

- To pursue the use of an integrated environmental authorisation for afforestation that meets DEA, DWA, DAFF and Natural Heritage Resources Act requirements.

- The investigation of section 24(c) and (d) of NEMA through the adoption of spatial development plans (for afforestation) and norms and standards for practices in forestry. The objective here is similar to an area-based EIA as already provided for in the revised EIA Regulations but in this instance aimed at allowing afforestation to proceed without an environmental authorisation but subject to agreed norms and standards which, as with an environmental authorisation, would need to be monitored by the Department of Environment Affairs anyway.

Our Environmental Consultant, Dr Scotcher must be thanked for his tireless efforts on all the environmental and legislative issues which we deal with in the Sector. What is contained in this Report is only a snapshot of the key issues and processes in which he is active, while there is a massive amount of work that continually goes into producing these and many other outcomes for the Sector.

LAND REFORM

While land restitution seemed to come to a halt in 2010 as a result of the fiscal challenges facing the country, this nonetheless provided a very good opportunity to review the performance of the programme since its inception.

The candour and pragmatism of the new Minister of Rural Development and Land Reform, Minister Gugile Nkwinti, in reviewing the land reform programme, is greatly welcomed. At a meeting between business and the Minister, he was clear about the massive failure of land restitution in the agricultural sector to date and equally clear about the key reasons for this, namely the lack of technical and financial support to new land owners and the lack of partnership between existing players and new entrants which would facilitate the provision of such support.

We were very pleased to reinforce in that meeting and again in a presentation to the State President, that through the models that FSA had negotiated and which the then Minister of Land Affairs had approved, very different outcomes are being seen in the settlement and post settlement of forestry land claims.

The Minister and his Department's greater emphasis on the recapitalisation of land reform projects that have already been transferred to beneficiaries is a major milestone towards better land reform outcomes for both communities and the country as a whole. Another sign of the pragmatism shown by the Minister is the fact that he has indicated that the long-awaited Green Paper on Land Reform will be redrafted and that as part of this re-drafting, the two issues of rural development and land reform will be separated.

Through DAFF's Comprehensive Rural Development Programme, which focuses on social, technical, the sustainability and development of rural livelihoods and institutional facilitation together with the Department's Recapitalisation and Development Programme, we can expect to see better outcomes for the critical land issue in South Africa.

This is a far more progressive and pragmatic approach with much greater potential to benefit land reform beneficiaries and the country as a whole than what was rumoured to be contained in a proposed Green Paper on Land Reform which never materialised. Having said that, the proposed Land Tenure Security Bill, Gazetted on 24th December 2010, while well-intentioned in terms of seeking to protect vulnerable workers in rural areas, if passed in its current form, will in fact worsen the plight of workers in rural areas. FSA has made a formal submission on this proposed legislation which will have many other unintended consequences if allowed to be promulgated. These include reducing the Sector's ability to create more jobs for unskilled workers, with an increased focus on mechanisation, increased rural and urban informal settlements and decreased investment in farming, without even considering the infringement on the rights of landowners and the legislative anomalies that would be created around the responsibility for the provision of services and the cost thereof.

FSA will continue to engage with the Department of Rural Development and Land Reform in 2011 in a partnership to drive the programme forward, building on our past successes and using the new strategies adopted by Government.

LABOUR ISSUES

Four Draft Labour Bills Published for Public Comment

On 17th December 2010 the Department of Labour Gazetted for public comment 4 draft Labour Bills, namely:

1. The Labour Relations Amendment Bill
2. The Employment Equity Amendment Bill
3. The Basic Conditions of Employment Amendment Bill
4. The Employment Services Bill

In many respects they are controversial in that:

- contravention of the LRA, BCEA and EEA would become criminal offences;
- penalties for non-compliance would be increased dramatically;
- employers would have to employ all employees on a permanent basis unless they could justify to DoL the use of fixed term contracts;
- the use of "temporary employment services" would be virtually impossible;
- the definition of an employee and employer would be changed leading to various consequences for the "employer";
- employment equity regulations would be made stricter;
- the State would become directly involved in the Employment Agency business through the establishment of "Public Employment Services"; and
- the private sector would have an obligation to provide the above Agency with various information.

It is FSA's view that should the above Bills be enacted in their current form, they would not only lead to an increased administrative burden on employers (thereby increasing their "cost of doing business") but would, more importantly, make it far more difficult of the Industry to assist the Government in its stated objective of creating 5 million new jobs over the next ten years. FSA's Human Resources Committee has made a submission to DoL to this effect.

Discussions on the Bills are currently being debated at NEDLAC. FSA, however, will be involved in making further representations during 2011 at the Parliamentary Public Hearings which will ensue.

Review of Forestry Sectoral Determination

Although only going to be concluded during the course of 2011, members should be aware that the Department of Labour has initiated a review of the conditions of employment and minimum wage *vis à vis* the Forestry Sectoral Determination. FSA has already provided DoL with a submission outlining the Industry's viewpoint on these issues – namely that the current conditions of employment are fair and should thus not be changed and that increases in the new minimum wage cycle (starting 1st April 2012) should be capped at CPI.

EDUCATION AND TRAINING

FSA, as it has since its inception, continues to support the educational and training needs of the Industry through not only providing direct funding to the University of Stellenbosch and the Nelson Mandela Metropolitan University (Saasveld) but also being a major stakeholder of and contributor to the Forest Industries Education and Training Authority. A brief summary of these activities appears below.

Tertiary Educational Institutions: Universities

Due to the prevailing depressed trading conditions experienced by FSA members and the resultant requirement to reduce the overall budget, the combined funding allocation approved by the Executive Committee for Stellenbosch University and Saasveld during in 2010 was reduced from that requested of R188 000 to R144 000.

The result of this decision was that Stellenbosch was granted bursary funding of R120 000 and Saasveld a total of R24 000 for travel funds. Unfortunately the R10 000 allocated to each Institution (which had been provided for over many years to help pay for one of their respective students to attend the annual International Forestry Students Symposium) was declined. It is pleasing, however, to report that this sum was reinstated in the 2011 budget and is a direct reflection of improved market conditions.

In addition to the above, FSA once again provided R25 000 in 2010 to the ICFR for the provision of bursaries to their research personnel and in addition to this the Medium Grower Group provided R50 000 of funding to provide 5 bursaries to worthy forestry students at both the University of Stellenbosch and Saasveld.

As was reported in last year's Annual Report, it is extremely encouraging to report that intakes of 1st year students into forestry courses at both Stellenbosch and Saasveld continue to increase. This is not only a reflection upon the increased positive attitude that prospective students have about a career in the Forestry Industry but also on the ability of these two Institutions to be able to deliver first class education which enables those who successfully complete their courses to take up rewarding careers in the Industry.

In this regard FSA must thank those primarily responsible for this success, namely Mr Pierre Ackerman, Chairman of the Department of Forest and Wood Science at Stellenbosch University and his successor, Professor Thomas Seifert, who took over from Pierre during the year, Dr Josh Louw, Director of the School of Natural Resource Management at Saasveld and their respective staff for their unfailing commitment to providing the Industry with the graduates and diplomates needed by the Industry.

Tertiary Educational Institutions: Umgungundlovu FET College

An NQF level 4 "General Forestry" qualification, the development of which is being facilitated by the Umgungundlovu FET College in Pietermaritzburg and funded by FIETA, is well on its way to being finalised. A small "Task Team", including FSA and other Industry members has been tasked with overseeing the development of this qualification. It is pleasing to note that a service provider was appointed during the period under review to develop the qualification and progress is now being made with its development. This qualification is to be welcomed as it will, in essence, be a "bridging course" for those wanting to enroll for the Forestry Diploma course offered at Saasveld. FIETA is to be thanked for the provision of the not insubstantial funding to develop this qualification.

Forest Industries Education and Training Authority (FIETA)

FIETA continued to serve the Industry well during 2010, being one of the most efficient of the 23 SETAs in existence. This, in part, was due not just to the competent leadership of its CEO, Mr Simangaliso Mkhwanazi and his staff, but also because of the positive inputs made and dedication of its Board members representing the forestry, wood products, pulp and paper and furniture sectors.

Despite this good track record, the National Skills Authority nevertheless announced its intentions during the year to reduce the number of SETAs from 23 to 21. Included in this proposed re-alignment of the "SETA landscape" was not only the demise of the FIETA but its dismemberment – the forestry part being moved across to the agricultural SETA and the balance (forest products, pulp and paper and furniture) being hived off into a new "Manufacturing SETA" comprising these ex-FIETA sectors together with the entire Clothing, Textile, Footwear & Leather (CTFL) SETA and the Publishing, Printing and Packaging sub-components of the MAPPP SETA.

Following discussions at a subsequent FIETA Board meeting and having canvassed FSA members' views on the situation, FSA's Assistant Director, on behalf of the FIETA Board drafted a counter proposal in line with the members' views, (supported by the FIETA Board), which was presented to the NSA at their meeting convened to garner views on their proposals, held in June 2010. In essence the proposal put forward argued for the retention of the FIETA value chain and hence not for FIETA to be split up. The NSA seemed to warm to this idea but asked FIETA to provide further motivation for such a decision to be taken. This additional motivation, contained in a Report drafted by FSA's Assistant Director, was subsequently submitted to the NSA.

It is pleasing to report that, after considering our motivation, the NSA finally adhered to our recommendation. As such FIETA has thus moved in its entirety to the new Fibre Processing & Manufacturing SETA (FP&M SETA), along with the Printing, Packaging and Publishing sub-sectors of MAPPP plus the entire Clothing, Textile, Footwear and Leather SETA. The new SETA, FP&M, became operational from 1st April 2011. This will at least ensure that the Forestry Industry will get a better voice on the Board than it would have done otherwise.

It should also be reported that an "Amalgamation Committee" has been established to facilitate the merger of the three SETAs. This is no easy job and will require a lot of delicate negotiation between all parties given that the process of establishing a "unified" SETA will involved the assimilation of three sets of human and physical resources.

A further issue to deal with is that the Minister of Higher Education and Training has decreed that SETA Boards will, in future, be limited to 12 members and that only one third of existing Board members can serve on the new Boards that will be installed on 1st April 2011. This poses a problem regarding the retention of skills at Board level but will have to be dealt with.

FSA is, however, confident that despite the challenges faced by the new SETA dispensation, we will be able to ensure that the training needs of our Industry are fully serviced.

BUSINESS DEVELOPMENT UNIT

Emerging Timber Grower (ETG) Programme

The Programme has 4 primary elements and the excellent progress that was made during 2010 in each of these focus areas is reported on in brief below.

Strengthening the Emerging Timber Grower (ETG) Organisation

Two key activities were undertaken in the continued quest to strengthen the effectiveness of ETG structures. Firstly, ensuring that all ETG structures functioned properly by providing secretariat services and facilitating the convening of their quarterly meetings. Secondly, facilitating these ETG structures' participation in key decision making processes including Municipal and Sector forums.

Communication and Information Dissemination

Due to a lack of resources, the only communication and information dissemination vehicle used were the ETG structures' quarterly meetings. Having said that, using these meetings to facilitate the dissemination of information on current issues and developments and receiving feedback from members has proved to be an extremely effective and cost efficient method of doing so. These meetings are also a key platform for interaction between growers, Industry and Government who are party to their proceedings.

Capacity Building and Skills Development

In keeping with the spirit of ETG Toolkit Technical Manual development and pilot implementation, in which no less than 711 growers benefited from training in the form of classroom and in-field sessions during 2009, various role players were engaged during 2010 to secure much needed resources to provide capacity to extend the benefits to the broader ETG membership. To this end, the Forest Industries Education and Training Authority (FIETA) expressed principle support and requested FSA to facilitate the drafting of a medium to long-term programme proposal for submission to its Board, incorporating land reform type projects as well. In addition, FIETA made approximately R300 000 of funding available as an interim grant, thereby demonstrating its commitment to this worthwhile project. FSA would therefore like to sincerely thank FIETA for making the expanded roll-out of the project possible.

Sustainable Forest Management (SFM) System

Two SFM system pilot sites, namely Izanqawe (a land reform project) and Ozwathini (a community based forestry initiative), have been initiated in KZN and through the established of "Site Committees", progress is being made in rolling-out the system.

Similarly, the spirit of the project has been extended to the Eastern Cape (EC) through the appointment of a Field Manager as part of a partnership with ASGISA-EC, by mainstreaming SFM principles into community forestry projects.

The securing of funding for the second year of the SMF system pilot project from DAFF has, unfortunately, hit a set-back due to the fact that the MoU between FSA and DAFF to allow this, and other things to happen, has still to be signed. It appears that this is merely an administrative hitch and is hoped that once this has been resolved, funding for this purpose will be secured.

Forestry Development Initiatives

In line with FSA's priority focus areas, efforts to promote and facilitate forestry development yielded excellent results during the year and in this regard, the following needs to be noted:

- FSA continued its participation on the National Forestry Development Coordination Task Team overseeing, amongst others, the implementation of the Industrial Policy Action Plan (IPAP2) targets.

- Through the KwaZulu-Natal Forest Sector Initiative (KZN FSI) Forum facilitation, it can be reported that:
  - water reserve determinations for catchments with potential were completed;
  - stakeholders, including District and Local Municipalities and Traditional Authority Councils, were engaged;
  - a desktop technical project assessment was under taken; and
  - community support mechanisms were modelled.

- FSA participated in the establishment of the Eastern Cape Forestry Sector Development Forum, a body intended to provide leadership and coordination of forestry development – an important institutional capacity in the midst of afforestation pressures.

- FSA continued its participation in the implementation of the memorandum of co-operation that was signed between DWAF, FSA and the Limpopo Business Support Agency (LIBSA), regarding the facilitation and coordination of forestry development and support for small forest enterprise in Limpopo.

Forest Governance Learning Group (FGLG)

The FGLG Programme internationally was evaluated and FGLG South Africa (FGLG-SA) was amongst the most highly rated performers, taking first spot together with two other countries. It was not therefore surprising that FSA secured yet another four year contract (from 2010 to 2013) to convene the Programme locally. The Programme's key highlights during 2010 included:

- the design and development of a 2010 operational plan and four year work-plan for FGLG-SA;

- making inputs into the development and draft of the Department of Trade and Industry's Industrial Policy Action Plan (IPAP2);

- making inputs into the development of the Department of Agriculture, Forestry and Fisheries' Small and Medium Forest Enterprise Development Strategy ;

- making inputs into the development of land reform post-settlement support mechanisms, particularly the KZN process that led to the establishment of the now Agribusiness Development Agency (ADA); and

- participation in the Forest Governance 7th International Learning Event: "Forest Governance and REDD", held in Namaacha, Mozambique.

The Business Development Unit in particular and FSA in general are indebted to all partnering institutions for their valuable contributions to and patronage of the Unit's activities during 2010, particularly DAFF, DTI, KZN DEDT, IIED, SANBI, FIETA, LIBSA, ASGISA-EC, FGLG-SA members, Industry, District Municipalities, INR and Iziko.

MUNICIPAL PROPERTY RATES

Application to Minister i.r.o. Maximum Rand Rateage of 0.5%

As reported in previous Annual Reports, FSA has been heavily involved from the outset with Kwanalu's endeavours to prevent Municipalities from charging property rates on agricultural and forestry land that would damage the financial viability of the Sectors. This involvement has not only involved financial support but also providing the expertise, through the Assistant Director, to draft the necessary supporting documentation to assist with this.

As reported on in last year's Annual Report, a speedy resolution to Kwanalu's application to the Minister of, at the time, Provincial and Local Government (subsequently renamed Co-operative Governance and Traditional Affairs), was dashed when he rejected outright Kwanalu's application in March 2009 for him to limit the ability of Municipalities to levy a property rate tax on agricultural and forestry property of no more than 0.5%, calling it "vexatious".

Due to the fact that he appeared to have erred in his decision, by not only having completely disregarded the ample evidence that we had provided him of the serious consequences that unsustainably high property rates could cause the Sector, as contained in a detailed Case Study Report drafted by FSA, but also the evidence contained in a Report commissioned by his own Department, which largely concurred with our own findings and recommendations, it was decided to proceed with a legal challenge. During the year FSA expended a considerable amount to time and effort assisting Kwanalu in this process.

Eventually Kwanalu had its day in Court on 3rd December

2010. The Minister had, however, filed an affidavit at noon the previous day which, in our Senior Counsel's opinion, would disadvantage our case and it was thus decided to postpone the case until a later date. The new Court date was set down for 15th April 2011.

At the time of writing, it can be reported that the case was heard on that date and that a written verdict will be forthcoming from the presiding High Court Judge in due course.

Proposed Amendments to the MPRA

During the year the Department of Co-operative Governance and Traditional Affairs announced its intention "to introduce comprehensive amendments to the Municipal Property Rates Act in the second half of 2010". In terms of this various stakeholders, including FSA, were invited to make submissions at the public hearings that were organised to facilitate this. FSA duly made a submission, the main recommendations made therein being the following:

- Clarifying definition of "rates" as opposed to "rate liability".
- Limiting annual increase in rate liability (as opposed to Rand rateage) to CPI.
- Using a "normalised rates base" to base annual increase when an extraordinary jump in valuations occurs (e.g. every 4 years when general valuations done).
- Ensure Municipalities adhere to the correct MPRA ratio regulations.
- Limit gross Rand rateage to 0.5% (as per Kwanalu's application to Minister.)

Despite the Department's undertaking to expeditiously look at amending the Act, it is disappointing to note that as at the time of writing nothing has come of this very welcomed initiative. Members can, however, be assured that FSA will continue to do all it can to ensure that property rates do not compromise the financial viability of the Industry.

INDUSTRY PROMOTION

The Wood Foundation

The beauty of the Wood Foundation is that it not only covers the entire value chain but that it will promote the growing of trees and the use of wood as a preferred material in a generic and non-partisan manner.

Since the inaugural meeting, a large amount of work has been undertaken by both members of the Foundation's Executive Committee and Flagship, the Advertising Agency hired to develop a brand image and a marketing / promotion campaign. A brief summary of activities follows:

- A well attended AGM was held on 21st July 2010 at which, amongst other things, changes to the Constitution to allow for TWF to become a Section 21 Company (which it now is) were made.
- The Assistant Director was again elected as FSA's representative on the TWF's Executive Committee and Roy Southey of Sawmilling SA, the Chairperson.
- The official launch of the Wood Foundation to the media occurred during the Interbuild Expo at Nasrec, Johannesburg (8 – 11 September). The venue for the launch was the full-sized timber frame house that had been erected on site to demonstrate the benefits of wood in construction. Excellent exposure was achieved.
- Further exposure was obtained through having a stand at the Sabie Forest Fair from 7th to 9th October 2010 and through the distribution of Wood Foundation brochures in the September issue of Wood SA and Timber Times.
- A strategic planning process is now underway to concentrate on building on its past successes. Of crucial importance will be initiatives to raise funding to pay for the promotional activities that the Wood Foundation would like to undertake.

Other Promotional Activities

In addition to the Wood Foundation's activities, other promotional activities were either undertaken, or in the planning phase, during 2010. In brief, these are as follows:

- Three thousand "Forestry Facts" pamphlets, showing the latest (2008/09) Industry statistics were published by FSA. DAFF is, once again, to be thanked for funding their production.
- An electronic presentation to promote the South African Forestry Industry was, at DAFF's request, produced by FSA for use at the World Expo in Shanghai. Although, for various reasons, a forestry stand at the Expo was not arranged, the presentation has been circulated widely and gives an excellent overview of all aspects of the SA Forestry Industry. Our thanks must go to Chris Chapman of Art Works for his input into producing the presentation and for DAFF for funding it.
- As part of the "Sibo Says" animated children's TV educational series, the producer, Ms Natalie Wood, produced an episode focusing on forestry, free of charge. Ms Wood is thanked for this generous gesture.
- The Paper Recycling Association of South Africa (PRASA) has initiated a campaign to get forestry included in the primary school curriculum at all State schools. A pilot project, subject to the obtaining of R750 000 of funding, will be embarked on in all Gauteng's primary schools. PRASA has approached various potential funders including FSA, PAMSA and the Wood Foundation. This is certainly an exciting project and it is hoped that the required funding will be secured so that it can commence.

TRANSPORT ISSUES

As reported in last year's Report, transport issues became a major concern for FSA members. In response to this ever increasing problem for the Industry, the FSA Executive Committee instructed FSA to establish an "FSA Transport Committee" to deal with these matters. As a result, the Committee was officially established and the inaugural meeting held on 14th July 2010. Further meetings held in August, September and November 2010 highlight the fact that this Committee has now become the most active Committee run under the auspices of the FSA. A brief summary of issues dealt with by the Committee appear below:

Railage Matters

FSA Survey to Determine Railage of Timber Situation

Following a request made by the FSA Executive Committee for FSA to provide factual information on the changes in tonnage of timber railed over the past five years, the reasons for any changes in volume reported and the road infrastructure that was being impacted, FSA undertook a survey to determine the above.

The results of the Survey, in brief, showed the following:

- Total tonnage railed dropping from 3.5mt in 2005 to 2.1mt in 2010. This 1.4mt (40%) decrease represented 37 500 additional truck loads having to go by road.
- By far and away the greatest reasons given for the move away from rail and onto road were high rail tariffs, exorbitant tariff increases from one year to the next and an inefficient service rendered by Transnet Freight Rail (TFR).
- The N2 was the most affected road in terms of addition timber traffic.

FSA Interaction with Transnet Freight Rail (TFR)

The above survey findings informed a letter written to the relevant Executives in Transnet, in which the Industry's concerns regarding railage issues had been raised and also to the Minister of Agriculture, Forestry and Fisheries, Minister Joemat-Pettersson.

Furthermore, the Executive Committee agreed that a high level FSA delegation should meet with, in terms of protocol and as an initial step, the relevant senior TFR management to raise these matters of concern and that in terms of this, the FSA Transport Committee produce a comprehensive presentation which highlighted what the problem areas were and how they could be resolved.

In its presentation to the Executive Committee, the FSA Transport Committee made the following recommendations with regards to what TFR be requested to do, namely:

- place moratorium on branch line closures until cost benefit exercise done;
- place moratorium on scrapping of rail truck until audit done;
- freeze rail tariff increases until concessioning process finished;
- establish a regulatory body (along the lines of Nersa) so as to control future tariff increases ; and
- adopt a far more positive attitude towards the railage of timber and increase the service rendered to the Industry significantly.

It had been hoped that this meeting could have been convened by the end of January 2011 but due to changes made to the senior management of Transnet and TFR this was not possible. FSA will, however, to do its utmost to ensure that the meeting takes place as soon as possible.

Transnet Freight Rail's Branch Line Concessioning Process

During the year under review TFR initiated a process whereby they announced the intention to concession over 7 000 kms of branch lines throughout the country. In term of this the FSA Transport Committee registered an Expression of Interest with TFR and began actively pursuing the possibility of the Industry taking on a concession to run the "Pietermaritzburg Cluster" of branch lines.

Discussions in this regard have taken place with two potential private rail operators, Sheltam, a locally based operator, and Freightliner, a company based in the UK. In terms of the TFR process, concrete proposals for running the lines will have to be submitted shortly. In order to facilitate this, the Transport Committee is in the process of collecting all the necessary information needed so that the potential service providers mentioned above can compile business proposals.

Although the above sounds encouraging, what is concerning is the fact that the business model being adopted by TFR seems to be fundamentally flawed in that they are insisting that concessionaires will not be allowed to operate trains from origin to destination (i.e. they will only be allowed to operate trains on the branch line section of any route, leaving the main line section the responsibility of TFR). Unfortunately, this makes the financial viability of any proposed concession uneconomic unless there is a substantial increase in traffic on the branch lines, which seems unrealistic at present. FSA will, nevertheless, continue to engage in the process to ensure that the best interests of the Industry are met.

Road Matters

Although a major focus of the Committee's activities during 2010 were related to rail matters, several important road related transport issues were, and continue to be, dealt with. In summary, these are as follows:

N2 Toll Road

Following a meeting with a senior KZN Provincial SANRAL official, at which he dismissed the Industry's concerns regarding the tolling of roads in general and the proposals regarding the erection of toll gates on the KZN section of the N2, it can be reported that the KZN Provincial Government has now come out against their N2 tolling proposals. This is to be welcomed, although whether or not SANRAL's proposals will come into effect will have to be seen. FSA will, however, continue to monitor developments and try to ensure that a successful outcome is achieved.

ARTO

The implementation of the proposed amendments to the Road Traffic Ordnances (ARTO), which would have resulted in the introduction of a "points demerit" system and which would have had serious consequences for not just the drivers of vehicles but also those who own them, has been postponed. The FSA Transport Committee had serious concerns surrounding these amendments, especially with respects to the potential negative impacts that it would have on timber transport operators, and is thus thankful that the proposed amendments have, for the time being, been shelved.

Change in "Labour Carrier" Specifications

During the latter part of the year, FSA was alerted by Forest Engineering South Africa (FESA) to the fact that new regulations, concerning the distance between facing seats on "labour carriers" (from 1200 mm to 1300 mm) would, if the labour carriers used by the Industry were classified as "busses", cost the Industry a substantial amount of money to comply with. FSA subsequently, and with the assistance of FESA, made a submission to the NRCS, the relevant Government body. Following the obtaining of a legal opinion and subsequent negotiations with the NRCS, we are happy to report that this matter has been settled to the satisfaction of the Industry.

Port Matters

Transport issues do not limit themselves to merely railage or road matters but also to other transport related infrastructure matters. Given that a considerable tonnage of forest products are exported from our shores every year, any changes to port tariffs and cargo dues (the latter being taxes) can and does impact the Sector.

It was thus with alarm that FSA became aware of the fact that the National Ports Authority had applied to the Ports Regulator of South Africa to increase, on a "general basis" export cargo dues by 11.9% - way above inflation. Although the proposed increase in cargo dues for pulp and paper exports were set at the 11.9% level, which in itself was problematic given the prevailing inflation rate of 3.6%, the proposed increases in dues related to wood products, woodchips and logs were an incredible 246.4%, 612.4% and 644.8% respectively.

It is encouraging to note that FSA's submission to the Ports Regulator of South Africa National condemning these proposed increases, helped in ensuring that these exorbitant increases were rejected and that an eventual increase of 4.5% was granted. This saved the Sector many millions of Rand.

APPRECIATION

While 2010 offered some respite from the very harsh trading conditions of 2009 and while we are making excellent progress in partnership with Government to improve the environment domestically, many timber growers are still facing enormous challenges in keeping their businesses afloat.

We would therefore like to firstly thank each and every one of our members for their continued financial support as well as for their personal contributions in the many structures and processes that FSA has, including those with our key implementation partners. This willingness by individual members to make themselves and their staff available to participate in the endeavours of the organisation, greatly reduces the overall cost to growers and vastly improves the quality of the outcomes.

Given the relatively small management team in FSA, we depend enormously on a number of other implementation partners to carry out a large part of the work on behalf of the Industry. Our sincere thanks are therefore offered to our partners in the ICFR, FABI, SANBI, ASGISA, the Wood Foundation, sister Associations and partners in Government, for the extraordinary support they provide to the Industry.

In addition to the funding received from our members, every year we are also very fortunate in that we are able to leverage additional funding into supporting the Sector and particularly for small growers. This year was no exception, with funding being received from FAO, IIED, SANBI and FIETA to support forestry development and sustainable forest management. FSA would like to thank its small but dedicated team of staff members and consultants who have made sure that we continue to identify and respond to all the existing and new issues which seem to increase in number and complexity every year, Without this small but very effective team we would not have achieved many of the key outcomes that we did.

Lastly, we would like to offer our sincere thanks to our Chairperson, Viv McMenamin and Vice-Chairperson, Dinga Mncube and to their companies, for their extraordinary commitment to the Association for the last three years. It has been hugely instrumental in the progress we have made over that period as well as in positioning the Association to better serve the Sector's interests into the future.

MICHAEL PETER
EXECUTIVE DIRECTOR
FORESTRY SOUTH AFRICA
APRIL 2011

FSA FINANCES

FSA FINANCES 2010

The Audited Financial Statements for the year ended 31 December 2010 are included at the end of this Annual Report. In brief, some of the more salient points that need mentioning appear hereunder.

Income

After a difficult year in 2009, income during 2010 rose by 7.7% to R23 686 595 from R21 996 351 in 2009. Although income from investments was down 35.6%, due to lower interest rates, membership contributions increased by 14.1% to R20 642 608.

Compared to a combined budgeted income (member contributions and attributable income) for 2010 of R22 354 290, the actual income received was R1 332 305 or 5.9% higher than budget. Income from members' contributions was R770 000 over budget as a result of better than anticipated tonnage sales for the year.

Expenditure

Total combined expenditure (operational and Industry) for 2010 amounted to R23 734 034, an increase of R2 015 140 or 9.2% on last year's figure of R21 718 894. However, FSA's operational expenditure was R167 623 lower than last year mainly due to decreased expenditure on the IIED funded activities and Industry expenditure R2 182 736 higher, again due mainly to increased expenditure on the SANBI Grasslands Project .

Income Statement

As shown in the Income Statement, although an operating loss of R304 403 was made in 2010, once investment revenue had been taken into account, the loss was actually R55 831. This small loss decreased the Organisation's net equity or accumulated funds to R9 131 420 as compared to R9 187 251 for the previous year.

Balance Sheet

Although total equity and liabilities saw an increase over the previous year, the actual amount of money in FSA's various bank and investment accounts decreased in 2010 by some R481 310. Notwithstanding this, however, the cash reserves still stood at R5 919 412. Although this indicates that the Organisation's financial position is healthy and can thus meet likely current and future commitments, it must be noted that R4.3 million of these funds are in fact ring-fenced for, amongst other things, the Sirex Control Programme and for the Medium Grower Group's use and are theoretically not available to FSA *per se.* This gives FSA about a three months operating surplus in respect of its own operational expenses and less than one month surplus in respect of total expenditure for Industry and operational activities.

The day-to-day management of FSA's finances continues to be strictly controlled and monitored and we extend our sincere thanks for doing this so well to our Financial Controller, Mrs Muriel Farquharson.

Above all FSA would like to express its most sincere appreciation to all members for their continued and loyal support of FSA during this past year which, although better from a financial perspective over the previous year, still presented significant challenges to our members.

FSA BUDGETS FOR 2011

Although it would appear that the economy got over the worst of the global financial crisis during 2010 and is on an upward trajectory, trading conditions remained far from optimal. However, what is pleasing to note is that the tonnage sales figures for 2010 (15.273 mt) were just over a million tons (7.1%) higher than in 2009 and 873 000t (6.1%) more than the 14.4 mt budget. Furthermore, timber sales tonnages indicated by members for 2011 indicated a further improvement.

Despite this, FSA management thought it prudent to be on the conservative side when drafting the 2011 budget. Consequently FSA's operational budget of R5 659 643, as requested and approved, at the Executive Committee meeting on 24th November 2010, was only R73 151 or 1.3% higher than that approved for 2010. The requested Industry budget of R19 338 148 was, at the same meeting, reduced slightly to R19 302 148 – some R2.3 million or 13.8% higher than that approved the previous year. Although this increase seems high, it needs to be borne in mind that of this total increase, R805 698 is attributed to the SANBI Grasslands Programme which is fully funded by SANBI (and thus does not have any material financial implication for FSA) and a R500 000 provision for a new "Damage Causing Animal" project was approved. Had these two projects been excluded from the budget, the increase in the Industry budget would have been a more modest 6.8%. The combined approved budget for 2011 is R24 961 791, some R2 421 218 or 10.7% higher than that approved in 2010.

A summary of these budgets is shown in the Table below.

FSA OPERATIONAL AND INDUSTRY BUDGETS

Allocation	Approved 2010	Approved 2011	% Change
(1): FSA Operations	5 586 492	5 659 643	1.3%
(2): Industry support			
Forestry Research	10 236 918	11 107 898	8.5%
Forest Protection	3 177 461	3 286 050	3.4%
Environment & Water	1 130 000	1 200 200	6.2%
Charter Council	577 400	549 000	-4.9%
Education	144 000	162 000	12.5%
Promotion	42 000	45 000	7.1%
Grasslands Programme	1 646 302	2 452 000	48.9%(1)
Damage Causing Animal Project	Nil	500 000	n/a
Industry total	16 954 081	19 302 148	13.8%
TOTAL	22 540 573	24 961 791	10.7%

To be noted from above:

(1): Fully funded through SANBI so no direct financial implication for FSA.

Concerning the tonnage upon which to base the 2011 budget, it is heartening to note that the estimated sales tonnages given to FSA by contributing members for 2011 indicated that the membership levy could be based on 15.5 mt. This compares favourably with the base used to fund the 2009 budget of 14.9 mt and that for 2010 of 14.4 mt (although, as mentioned, this estimated base was exceeded by almost 900 000 tons). The Executive Committee approved the recommendation made by FSA that the 2011 budget be based on tonnage sales of 15.5 mt.

Based on this tonnage and the approved budget, the required levy per ton, once budgeted attributable income had been taken into account, was set by the Executive Committee at 141 cents per ton for those members who contributed to the ICFR and 80 cents a ton for those who did not. These levies compare to 138 cents per ton and 77 cent per ton levied the previous year and represent increases of 2.2% and 3.9% respectively.

FSA AUDITED FINANCIAL STATEMENTS

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2010
General Information

Country of incorporation and domicile South Africa	Nature of business and principal activities 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	
Chairperson	Ms V McMenamin
Vice chairperson	Mr D Mncube Mr B Aitken Mr S Cele Mr S Damoyi Mr P Day Mr D Khakhu Mr C Lippert Mr M Mason Mr L Mudimeli Mr S von Fintel
Business address	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 Inc Chartered Accountants (S.A.) Registered Auditor
Company registration number	017-638NPO

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2010

Index

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

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2010
Independent Auditors' Report

To the members of Forestry South Africa

We have audited the annual financial statements of Forestry South Africa, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 31.

Executive Committees' Responsibility for the Annual Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Forestry South Africa as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

Other matter

Without qualifying our opinion, we draw attention to the fact that the supplementary information set out on Page 32 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.

AM Smith and Company Inc
Registered Auditor

AM Smith
Chartered Accountant (S.A.)

17 May 2011
Little Falls
774 Waterval Avenue
1724

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2010
Executive Committees' Responsibilities and Approval

The executive committee is required to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the association as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

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

The executive committee acknowledge that they are ultimately responsible for the system of internal financial control established by the association and place considerable importance on maintaining a strong control environment. To enable the executive committee to meet these responsibilities, the executive committee sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the association and all employees are required to maintain the highest ethical standards in ensuring the association's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the association is on identifying, assessing, managing and monitoring all known forms of risk across the association. While operating risk cannot be fully eliminated, the association endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The executive committee has reviewed the association's cash flow forecast for the year to 31 December 2011 and, in the light of this review and the current financial position, they are satisfied that the association has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the association's annual financial statements. The annual financial statements have been examined by the association's external auditors and their report is presented on page 23.

The annual financial statements set out on pages 25 to 31, which have been prepared on the going concern basis, were approved by the executive committee on 17 May 2011 and were signed on its behalf by:

Chairperson

Executive Director

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Non-Current Assets			
Property, plant and equipment	2	1,205,524	1,276,016
Current Assets			
Trade and other receivables	4	2,985,977	2,269,797
Cash and cash equivalents	5	5,919,412	6,400,722
		8,905,389	**8,670,519**
Total Assets		**10,110,913**	**9,946,535**
Equity and Liabilities			
Equity			
Accumulated funds		9,131,420	9,187,251
Liabilities			
Current Liabilities			
Trade and other payables	6	979,493	759,284
Total Equity and Liabilities		**10,110,913**	**9,946,535**

Statement of Comprehensive Income

Figures in Rand	Note(s)	2010	2009
Revenue	7	20,642,608	18,087,208
Other income		2,787,023	3,509,652
Operating expenses		(23,734,034)	(21,718,894)
Operating loss	8	**(304,403)**	**(122,034)**
Investment revenue	9	256,964	399,491
Finance costs	10	(8,392)	-
(Loss) profit for the year		**(55,831)**	**277,457**
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		**(55,831)**	**277,457**

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2010
Statement of Changes in Equity

Figures in Rand	Accumulated funds	Total equity
Balance at 1 January 2009	**8,909,794**	**8,909,794**
Changes in equity		
Total comprehensive income for the year	277,457	277,457
Total changes	277,457	277,457
Balance at 1 January 2010	**9,187,251**	**9,187,251**
Changes in equity		
Total comprehensive loss for the year	(55,831)	(55,831)
Total changes	(55,831)	(55,831)
Balance at 31 December 2010	**9,131,420**	**9,131,420**

Statement of Cash Flows

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Cash receipts from customers		19,926,428	17,646,901
Cash paid to suppliers and employees		(20,627,284)	(18,321,523)
Cash used in operations	12	(700,856)	(674,622)
Interest income		256,964	399,491
Finance costs		(8,392)	-
Net cash from operating activities		**(452,284)**	**(275,131)**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(29,026)	(16,289)
Total cash movement for the year		**(481,310)**	**(291,420)**
Cash at the beginning of the year		6,400,722	6,692,142
Total cash at end of the year	5	**5,919,412**	**6,400,722**

Accounting Policies

1. Presentation of Annual Financial Statements

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Financial assets measured at cost and amortised cost

The association assesses its financial assets measured at cost and amortised cost for impairment at each reporting period date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the association makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for financial assets measured at cost and amortised cost is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting period date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.2 Property, plant and equipment

Property, plant and equipment are tangible items that:

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment, which is as follows:

Item	Averageuseful life
Buildings	50 years
Furniture and fixtures	10 years
Motor vehicles	4 years
Office equipment	5 years
IT equipment	3 years

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and have significantly different patterns of consumption of economical benefits is depreciated separately over its useful life.

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

1.3 Financial instruments

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

1.4 Tax

Current tax assets and liabilities
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 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee
Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases – lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.6 Impairment of assets

The association assesses at each reporting period date whether there is any indication that an asset may be impaired. If any such indication exists, the association estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the association also:
- tests goodwill, with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

1.7 Employee benefits

Short-term employee benefits
The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.8 Revenue
Members levies and subscriptions are recognised as income.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

2. Property, plant and equipment

	2010			2009		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	240,000	-	240,000	240,000	-	240,000
Buildings	930,000	(148,800)	781,200	930,000	(130,200)	799,800
Furniture and fixtures	133,857	(79,078)	54,779	133,857	(68,641)	65,216
Motor vehicles	226,801	(136,080)	90,721	226,801	(85,050)	141,751
Office equipment	35,114	(14,465)	20,649	17,136	(10,200)	6,936
IT equipment	82,989	(64,814)	18,175	170,984	(148,671)	22,313
Total	**1,648,761**	**(443,237)**	**1,205,524**	**1,718,778**	**(442,762)**	**1,276,016**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Land	240,000	-	-	240,000
Buildings	799,800	-	(18,600)	781,200
Furniture and fixtures	65,216	-	(10,437)	54,779
Motor vehicles	141,751	-	(51,030)	90,721
Office equipment	6,936	17,978	(4,265)	20,649
IT equipment	22,313	11,048	(15,186)	18,175
	1,276,016	**29,026**	**(99,518)**	**1,205,524**

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Depreciation	Total
Land	240,000	-	-	240,000
Buildings	818,400	-	(18,600)	799,800
Furniture and fixtures	77,696	-	(12,480)	65,216
Motor vehicles	198,451	-	(56,700)	141,751
Office equipment	2,235	6,839	(2,138)	6,936
IT equipment	27,212	9,450	(14,349)	22,313
	1,363,994	**16,289**	**(104,267)**	**1,276,016**

Details of properties

Freehold property
Erf 13, Woodmead, Sandton

Purchase price 2002	1,170,000	1,170,000

3. Retirement benefits

Defined contribution plan
It is the policy of the association to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. The association is under no obligation to cover any unfunded benefits.

Figures in Rand	2010	2009
4. Trade and other receivables		
Trade receivables	2,984,197	2,258,044
Deposits	60	649
Other receivable	1,720	11,104
	2,985,977	2,269,797
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	4,500	20,550
Bank balances	4,275,356	4,157,485
Short-term deposits	1,639,556	2,222,687
	5,919,412	**6,400,722**
6. Trade and other payables		
Trade payables	14,919	15,355
VAT	269,973	151,719
Accrued leave pay	183,652	141,442
Accrued salaries	11,770	-
Accrued audit fees	32,000	30,000
Other accrued expenses	465,623	416,105
Other payables	1,556	4,663
	979,493	**759,284**
7. Revenue		
Sale of goods	20,642,608	18,087,208

8. Operating profit

Operating loss for the year is stated after accounting for the following:

Operating lease charges		
Premises	42,000	42,000
• Contractual amounts		
Depreciation on property, plant and equipment	99,518	104,267
Employee costs	3,413,531	3,026,225

9. Investment revenue

Interest revenue		
Bank	256,964	399,491

10. Finance costs

Late payment of tax	8,392	-

11. Auditors' remuneration

Fees	32,000	30,000
Adjustment for previous year	-	3,000
	32,000	**33,000**

12. Cash used in operations

(Loss) profit before taxation	(55,831)	277,457
Adjustments for:		
Depreciation and amortisation	99,518	104,267
Interest received	(256,964)	(399,491)
Finance costs	8,392	-
Changes in working capital:		
Trade and other receivables	(716,180)	(440,307)
Trade and other payables	220,209	(216,548)
	(700,856)	**(674,622)**

13. Commitments

Operating leases – as lessee (expense)		
Minimum lease payments due		
- within one year	57,861	196,296
- in second to fifth year inclusive	22,095	349,156
	79,956	**545,452**

Operating lease payments represent rentals payable by the association for certain of its office properties and office equipment. Leases are negotiated for an average term of five years. No contingent rent is payable.

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue	7	20,642,608	18,087,208
Other income			
Rental income		65,707	61,697
Sponsorship		2,703,336	699,184
Other income		17,980	2,748,771
Interest received	9	256,964	399,491
		3,043,987	**3,909,143**
Expenses (Refer to page 16)		(23,734,034)	(21,718,894)
Operating (loss) profit	8	(47,439)	277,457
Finance costs	10	(8,392)	-
(Loss) profit for the year		**(55,831)**	**277,457**

*The supplementary information presented does not form part of the annual financial statements and is unaudited