Raising the stakes

Impacts of privatisation, certification and partnerships in South African forestry

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Executive summary

Commercial forestry in South Africa is in transition. Relationships between the players – between government, civil society and the private sector – are changing, and new players are emerging. This is stimulated by changes in markets, policy and industry-wide trends such as concentration and outsourcing. Three processes in particular stand out as both responses and contributors to these changes:

- *Privatisation* of publicly owned plantations
- *Certification* of forest management and forest products
- *Partnerships* between companies and communities for forestry production

This report pulls together findings on the impacts on forests, economic development and local livelihoods of these and other related processes. It draws on some 20 sub-studies and a wide range of interviews carried out between 1999 and 2001. The aim is to understand how the private sector is changing and how in future it might play a stronger role in national objectives of economic efficiency, environmental sustainability and social empowerment.

Trends in the development of South Africa's forest industry

Over the space of about 100 years, South Africa's forest industry has grown into an internationally significant industry of great importance to the national economy. The historical development of the industry reveals three key themes. Firstly, the influential role of the state at key times. In response to a perceived national interest, the state filled the gap left when private investors were unwilling to develop plantation resources, by subsidising raw material prices and providing investment incentives. Over time, as the private sector proved more willing and able to assume the role, the state has become a less significant player. Secondly, there has been recent, but rapid, development of pulp and paper as a dynamic component of the industry. Thirdly, there has been a related rise in importance of international markets and international trends to South Africa's industry.

Current state of play

Within a very short period of time, South Africa has emerged as an international player. Today, from South Africa's 1.2% of national land area under plantation (1.5 million ha) some 19 million m^3 of roundwood is produced each year, half of it pulpwood, making the country the 12th largest

producer of pulp in the world. Sappi and Mondi – both global industry leaders in their respective paper product sectors – together own 47% of the plantations, the State owns 30%, smaller private enterprise and individuals own 22%, and the remaining 1% is shared by some 19,000 small or micro-growers. This high concentration reflects a process of vertical integration of the big companies, with the pulp and paper industry dominated by four main groups – Mondi, Sappi, Nampak and Kimberly – who produce 98% of the country's pulp, paper and board. The sawmilling industry is less concentrated although the five largest owners – Mondi, Hans Merensky, Sappi, Safcol and Yorkcor (each with several mills) – account for 70% of total production (1.87 million m^3 per annum), whilst some 220 small-scale mills account for only 10% of sawlogs.

South Africa is relatively more dependent upon international markets than other larger producers, and is therefore more vulnerable to changes in prices and market sentiment. Recent changes in legislation and policy, along with the general international trend to concentrate on core business, provide the incentive for companies to outsource the timber they process rather than to hold land and grow it themselves. Contracting out offers an important opportunity for greater participation in the industry, particularly by entrepreneurs from the previously disadvantaged community. However, poor conditions in the contracting industry are a concern.

The policy back-drop

Forest sector policy seeks to encourage the management of forests for the sustained yield of multiple goods and services for the benefit of multiple stakeholders. Considerable policy emphasis is put on woodlands, which cover, 23 million hectares – dwarfing the 1.5 million hectares of plantation which to date has been the focus of forestry – and provide people with a wide range of forest goods and services.

Macro policy in South Africa generally supports the multiple-use emphasis of forest policy – putting a major emphasis on sustainable development and improving the lives and wealth creation opportunities for previously disadvantaged sections of society. Other key sectoral policy influences on forestry include water policy which in the near future will put increasing checks on the spread of plantation forestry, and will challenge such forestry as an appropriate land use in some existing plantation areas. Land reform policy, although rather slow to gather momentum, presents opportunities for new players and some threats to existing plantation ownership through the land restitution process.

Privatisation – the instruments and the process

Post-1994 policies in South Africa call for radical changes in the way forests are managed to achieve national goals. A key element of this redefinition is privatisation of publicly owned commercial forestry operations. Sale of the land associated with these forests is however difficult given the requirements of the

national land reform programme. In addition, concerns exist regarding the consequences of transferring full land title. A policy decision was therefore taken not to sell state forest land, but to offer use rights to it through the mechanism of the long-term lease.

Leasing is based on the belief that the transfer of ownership rights is not necessary for a resource to be well managed if use rights are sufficiently secure, and a recognition that incentives – specifically secure and tradable use – are more likely to achieve sustainable management than regulations alone. In addition to the lease the government had two other main instruments of privatisation at its disposal. Firstly the transaction itself, embracing the initial statement of weighted bidding criteria reflecting government's priorities, the investors' competitive responses to those criteria, and the final negotiated terms of the sale between government and the preferred bidder. Secondly, the existing legislative framework, defining obligations in respect of forest management, land issues and labour relations.

The process of plantation privatisation in South Africa remains to be completed, and objective assessments of its success would be premature. However, the process has encouraged much thinking and a changed philosophy is evident – which recognises that government and the private sector need not be adversaries, provided the instruments which can balance public as well as private sector interests are put in place.

Certification – good for business, weak on social issues

About 0.83 million of South Africa's 1.5 million hectares of industrial plantation forest are currently certified under Forest Stewardship Council certification, with another 0.5 million hectares notionally covered by ISO 14001 certification of Sappi's forest operations. A desire to improve competitiveness was the major motivation for certification, although the need to deal with supply chain pressure and environmental and social criticism of the industry were also important. Several key impacts of the certification experience to date can be identified:

- *Environmental management systems have been tightened up*. Certification has achieved considerable impact in terms of improved environmental performance – but only for the large companies.

- *Only small, specific markets demand certification*. Certain niche markets for certified solid wood products have been found – but the big pulp market is unmoved as yet.

- *Market benefits accrue only when certification is combined with other strategies*. FSC certification alone appears insufficient to command new business, but combined with an existing relationship with customers, adequate manufacturing capacity or a specific position in the industry, it can offer market benefits.

- *Supply chains effects increase transparency – but not equity*. Powerful buyers have seen the opportunity for improving corporate reputation and reducing risk and have sent sustainability messages through supply chains. But often suppliers bear most of the costs and buyers reap most of the benefits.

- *Social issues and smallholder livelihoods – major challenges remaining*. Certification has provided a framework for identifying stakeholder concerns but social issues have been relatively poorly addressed in the certification process itself. Small growers as yet feel little benefit from certification.

- *Policy knock-on effects are considerable*. The success and further potential of certification has helped stimulate the development of national standards for sustainable forest management. Government already requires certification within two years of agreement of a lease to plantation on government land.

Certification has helped those whose plantation management was already good, and could afford it. These companies are now busy finding other ways to demonstrate their credentials as good managers. Certification has enabled them to talk with international friends, national stakeholders, and even the local neighbours, without quite so much blood-letting as in the past. Executives and environmental officers of the big forestry companies, together with some mill managers have made considerable capital out of the market positioning, packaging and branding advantages of certification. But the large South African forestry dog is still being wagged by a tiny consumer tail – since the only important market for certified wood products thus far is the DIY retail market in the UK.

There is much still to be done if certification is to become capable of effectively addressing the 'messy' social issues generated by these companies, and by all those forest enterprises that are not the biggest and the best. Indeed, certification has shored up the reputations of the biggest companies just as wider societal debates are promoting a larger number of smaller, communally based, producers and more equitable patterns of land and resource control.

Concerns for the future also revolve around the impact of changed requirements for certification with respect to further afforestation – particularly in regard to genetically modified material. Another major challenge lies in the fact that certification has had no effect on all those forests that really need improving – the plethora of small planted forest patches and woodlots and the vast areas of indigenous woodlands.

Company-community partnerships – improvement, but no panacea, for livelihoods

Corporate social responsibility initiatives in forestry have been around for years and outgrower schemes in South Africa grew out of these. Today however, these schemes are somewhere on the boundary between corporate social responsibility and hard-nosed business. Under the schemes, trees are grown by

smallholders with support from companies who later buy the product for pulp. Outgrowing is a way of allocating risk between producer and contractor: the former takes the risk of production and the latter the risk of marketing.

Outgrower schemes have become a vital part of the commercial strategy of the large forest companies in South Africa. Whilst outgrower timber only provides a small proportion of mill throughput, and is the most expensive per tonne, it also provides the fibre to the companies that would otherwise be unavailable because of land constraints. This allows a volume of production to be reached which achieves economies of large scale.

Outgrower schemes have contributed to household income but have not yet taken households out of poverty. In terms of the asset base for livelihoods:

- *Natural capital* has been built by households increasingly substituting trees for cattle as forms of savings. Some have also acquired new land under sale agreement of state assets. However potential negative impacts include spread of alien invasive vegetation and lowering of water tables.

- *Social capital* has been built by securing land rights within the communal tenure system through the schemes. However, growers associations capable of negotiating better terms of contract with the companies are still weak.

- *Human capital* has been built through silvicultural skills development. But there are a number of ways in which women are exploited in the schemes.

- *Physical and financial capital* has been built through access roads, input supply depots and rural credit provision. However, many growers fell their trees early to meet emergencies, they are tied by contract to the companies – restricting their ability to bargain for the best prices – and are excluded from owning shares in processing.

Small growers also face problems with mysterious or opaque government policy and uncoordinated service provision from agencies of national and local government. Their associations lack the power to engage with the policies and institutions that affect their livelihoods.

In contrast to the individually-based outgrower schemes, community-based forestry partnerships based on equity sharing or joint ventures have only received attention recently. These have focused on the Eastern Cape, where potential for new forestry is greatest. Yet there are some major disincentives for companies in the Eastern Cape, including poor roads and huge transport distances and little primary industry. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships have been slow to get off the ground.

Challenges ahead – more widely held vision required

Some growth in South Africa's forest industry seems likely. Most of this is likely to be in the pulp and paper sector, where production capacity is now almost fully utilised. The extent of that growth will almost certainly depend upon the industry's ability to extend the area afforested and to produce fibre at internationally competitive rates to feed the requirements of any new pulping and paper manufacturing capacity. Any future expansion in the afforested area will almost inevitably be focused on communally held land holdings, requiring the development of some form of partnership with those communities. The industry's ability to contain costs will depend upon its success in implementing new requirements regarding water, environmental management, social and labour factors, whilst trends towards outsourcing and contracting out seem likely to continue.

However, it is clear that, without actions to shape them, trends in South African forestry will not miraculously combine to produce a balance of economic efficiency, environmental sustainability and social empowerment. For such a balance to be possible, a strong new vision for the sector is needed which can provide the basis for actions to meet key challenges. These challenges include:

- *Negotiating a new pattern of ownership*. It is increasingly evident that both market and social empowerment imperatives are pushing towards a pattern of ownership in forestry involving a greatly increased pool of medium and small-scale producers whilst the large corporate actors withdraw to a greater degree from land holding and become effective buyers and processors of the product. Whilst various recent decisions of both government and the private sector support this – further investigation, negotiation and spread of agreement on this is needed.

- *Balancing equity and efficiency*. Harnessing market mechanisms to join regulatory and informational instruments, for both improved competitiveness and empowerment objectives, remains a major task for which stronger support across a wide range of actors is needed.

- *'Putting forestry in its place'*. Changing circumstances have revealed that forestry is no longer the best land use in some locations where it has dominated in the past, whilst in other locations the claim of astute tree planting to be the optimal land use – for social, economic and environmental reasons - is very strong. Balancing forestry with other land uses/alternatives requires a greater degree of cross-sectoral agreement than currently prevails.

Shared vision is needed to generate sufficient investment and space for a range of responses to the above challenges. These responses need to be granted enough room for manoeuvre – with enough time and resources to try, to fail, to learn, to adapt and to succeed. The following options for the different players in the sector have been developed.

Players	Options
Companies – large and medium – and their associations Companies should take social issues much more seriously than they have in the past and make progress at a range of levels that improve their relationships with other players	1. Step-wise systems for engaging with social issues 2. Modified certification procedures to improve learning 3. Criteria, loans and training for contractors 4. Principles for partnerships 5. Practical improvements in outgrowing 6. Equity and revenue sharing with growers
Government Government agencies should take the lead in assessing and attempting to balance the objectives and practices of the other players.	7. 'Visioning' and learning for forestry's future 8. Clear inter-agency co-ordination mechanisms 9. Human resource development strategy for forest contractors 10. Code of practice and dispute resolution on social issues 11. Assessing progress to better forest management 12. Forest permits and licensing implementation 13. Consumptive water use systems and tradeable permits 14. Increased tenure security for growers
Small growers and their associations Just as companies should develop and adopt principles for partnerships, so too should small growers, and their associations.	15. Capacity of grower co-operatives and associations 16. Grower representation at national level
Contractors and small-scale processors – and their associations Contractors and small-scale processors are the most poorly-integrated players in the sector and need stronger contracts, improved conditions and capacity development.	17. Contracts based on legislation and standards 18. Improved contractor conditions and capacity 19. Contractor-grower-company partnerships
Certifiers and development agents Roles of third party certifiers and intermediary development NGOs continue to be critical and their services can be further focused.	20. Training of auditors 21. Fair trade principles and simplified group certification 22. Improved services from development agents
Partnerships between players (local government, companies, NGOs, banks). Some options for improved forestry and livelihoods – indeed amongst the most crucial options – require a partnership approach between players from the outset.	23. A forum on social practice in forestry 24. Developing affected parties into real stakeholders 25. Joint decision-making and partnership brokering

Next steps

The 25 options above need to be chewed over, modified, fleshed out, prioritised and acted upon by the players highlighted. For this to be possible the first step is to disseminate the findings of the studies summarised here, and use briefings and learning processes to actively install them in the minds of individuals and the memories of institutions. A process of gathering feedback, modifying and developing the options, and prioritising them is then needed. Readers are invited to offer their views, and to encourage the players to take action.

Acknowledgements

Acronyms

APS   Afforestation Permit System
CAR   Corrective Action Request
CBO   Community Based Organisation
CITES   Convention on International Trade in Endangered Species
CSIR   Council for Scientific and Industrial Research
DEAT   Department of Environmental Affairs and Tourism
DFID   Department for International Development (UK)
DIY   Do-It-Yourself
DLA   Department of Land Affairs
DPE   Department of Public Enterprises
DTI   Department of Trade and Industry
DWAF   Department of Water Affairs and Forestry
EC   European Commission
EMS   Environmental Management System
FIA   Forest Industries Association
FITA   Forest Industries Training Authority
FOA   Forest Owners Association
FSC   Forest Stewardship Council
GDP   Gross domestic Product
GEAR   Growth, Equity and Redistribution Strategy
GEF   Global Environment Facility
GMO   Genetically Modified Organism
Ha   Hectare
HMH   Hans Merensky Holdings
IDP   Integrated Development Plans
IIED   International Institute for Environment and Development
ISO   International Organisation for Standardisation
LDO   Land Development Objectives
LHA   Louis Heyl Associates
m^3 cubic metre
MMP   Mondi Minorco Paper
NCT   Natal Cooperative Timbers
NFA   National Forest Act
NFAP   National Forest Action Programme
pa   Per annum
R   Rand
RDS   Rural Development Strategy
RDP   Reconstruction and Development Programme
RSA   Republic of South Africa
SA   South Africa
SABS   South Africa Bureau of Standards
SAFCOL   South Africa Forestry Corporation Limited [check]
SATGA   South Africa Timber Growers Association
SAWGU   South Africa Wattle Growers Union
SETA   Skills, Education and Training Authority
SFM   Sustainable Forest Management
SPV   Special Purpose Vehicles

Currency exchange rates
2001 South African Rand 8.17 to US Dollar 1 (July)
2000 South African Rand 6.93 to US Dollar 1
1999 South African Rand 6.11 to US Dollar 1
1998 South African Rand 5.53 to US Dollar 1
1997 South African Rand 4.61 to US Dollar 1
1996 South African Rand 4.30 to US Dollar 1
1995 South African Rand 3.63 to US Dollar 1

Introduction

1.1 What this report is about, and who should read it

This report is about the changes taking place in South African forestry, the pros and cons of these changes and the prospects for a forest sector that can contribute to sustainable national development and local empowerment.

Across many sectors in South Africa, policies, institutional structures and economic priorities are being transformed in response to the imperatives of equitable social development. One of the central elements of this transformation is a comprehensive land reform programme which cuts across all land use sectors. Further powerful forces shaping these internal changes stem from the opportunities and pressures of the globalising world economy.

In the forest sector, new policy and laws have been introduced, and the government is in the process of privatising state-owned forest assets. Government is keen to afford entry into the forest sector for previously marginalised groups and small-scale entrepreneurs. The country's large areas of woodlands are not commercially exploited for timber but are major sources of NTFPs and are beginning to receive more attention from government as a source of environmental security and inputs to improving people's livelihoods. Having been under environmental pressure – particularly on water issues – the existing plantation forest industry has made considerable environmental improvements over the last ten years and is now responding to growing social pressures and changing markets.

Thus the relationships between the players in forestry – in government, civil society and the private sector – are changing, and new players are emerging. It is a good time to take stock of the situation, to put the spotlight on the private sector and its current and potential contribution to development in South Africa.

The aim of the study, on which this report is based, was: *to understand how the private sector is involved in forestry; how this is changing; and, what it would take for the private sector to be economically, environmentally and socially sustainable in the future.* A particular focus has been placed on three linked themes:

- *Redistribution of forest assets* – towards and within the private sector and communities, including investigation of the privatisation of publicly owned plantations, small-scale enterprise and contracting in forestry

Fuelwood is a vital resource for many households – up to 20% of South Africa's total energy consumption is derived from biomass like this

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- *Certification* – its impact as a market access lever, a forest management tool, and a means to promote policy and institutional development

- *Company-community partnerships* – the existing smallholder outgrower schemes, and the actual and potential development of community schemes.

These three themes are key features of current debates and challenges in South African forestry. They are also of strong contemporary relevance in other countries and contexts. Experience in South Africa is likely to have much to offer those grappling with similar issues elsewhere. This report therefore aims to tell the story in a way which will be useful to both a domestic and an international audience.

It is hoped that this report will be read by: those in the South African forestry private sector who recognise a challenge and see room for improvement; those working locally to become more engaged with private sector players or to enter the field as players themselves; those in a government busy re-thinking and reforming its roles; those in other sectors – agriculture, water, tourism, land affairs and the macro-economy – who are interested in the pros and cons of different mechanisms and the relative impacts of their sectors on forestry and vice versa; and those in other countries who are interested in the South African experience, the successes and challenges of which are at the cutting edge of contemporary forestry.

1.2 The partners and process involved in the study

This study is part of a wider international project coordinated by the International Institute for Environment and Development – IIED (see box describing this project on the inside front cover of this report). Funding support for the project has been provided by the UK Department for International Development (DFID) and the European Commission (EC). IIED has a track-record in collaborative policy research for good forest management and has made a particular focus on private sector issues in recent times. To help coordinate the work in South Africa, IIED teamed up with Environmentek of the Council for Scientific and Industrial Research (CSIR), which has long been involved in research into various aspects of forestry in South Africa and beyond, and with the forestry adviser from the South Africa office of DFID.

Team members for the work came from the Department of Environmental Science at Rhodes University in Grahamstown, the Department of Sociology at the University of the Witwatersrand, the Centre for African Research and Transformation, Louis Heyl Associates, the government's Department for Water Affairs and Forestry (DWAF), CSIR, several independent consultancies, and several members of certification inspection teams.

The bulk of the study was carried out over two years between early 1999 and early 2001. The South African private sector's Forest Owners Association (FOA) engaged with the work at many stages throughout this period, as did DWAF. Initial widespread consultation led to identification of key issues which were then thrashed out at a workshop in May 1999, with a range of stakeholders and potential study participants. Members of a project advisory group comprising key stakeholders from government, the private sector and civil society were consulted and interviewed at several points through the research process, and a wider pool of stakeholders in different aspects of forestry were interviewed during the study. A number of research papers were commissioned under the three themes outlined above. When initial results were in, a second workshop was held to discuss findings in May 2000, attended by researchers and stakeholders from government and the private sector.

Some twenty-one sub-studies were carried out for this project – these are outlined in Box 1. All of these contributing studies are available separately from the addresses noted on the inside cover of this report. In this report we draw on all of these studies, referencing material only when a key portion of text, figure, box or table is used directly. We also draw on workshop findings, other background material and numerous notes from the interviews conducted over the course of the project.

Box 1 Papers prepared for the South Africa country study: Instruments for sustainable private sector forestry

1. Redistribution of opportunities and assets in forestry. South Africa is undergoing a number of changes in its commercial forest sector, as a result of an intense revision of forest policy and subsequent passing of new legislation. To trace the scope and impact of these changes, the following studies were prepared:

- Khosa, M. 2000. *Forestry contracting in South Africa.* This study of trends in outsourcing and contracting in the South African forest industry seeks to deepen understanding of the national context within which contracting is an increasing practice, and examines possible options for outsourcing.

- Foy, T. 2000. *Leasing of state-owned plantations: some recent experiences from South Africa.* Drawing on lessons recently learned from South Africa and elsewhere, this paper rationalises the use of forest leases as an instrument in the context of state forest restructuring.

- Heyl, L., von Maltitz, G., Evans, J. and Segoale, R. 2000. *Issues and opportunities for small-scale sawmilling in South Africa: an Eastern Cape case study.* This report describes the scale, structure and market niche of the small sawmilling subsector, with a focus on the Eastern Cape Province.

- Horn, J. 2000. *The role of small-scale sawmilling in household and community livelihoods: case studies in the Eastern Cape*. Using a case study approach, this study focuses on the livelihoods of small-scale sawmillers in the Eastern Cape.

- Bethlehem, L. 2001. *Bringing democracy to the forests: developments in South Africa's forestry policy and legislation*. This paper describes the policy and legislative changes in the forest sector, and sets recent initiatives in the context of a drive towards sustainable and equitable forest management.

2. Forest certification in South Africa. The studies on the impacts of certification drew on the experience and expertise of three local Forest Stewardship Council certification assessors and on some further analysis of stakeholder and supply chain relationships.

- Roberts, S., Mayers, J., Evans, J. and Frost R. 2001. *Developing credibility: certification in South African forestry.* This is an overview of all the certification studies with additional supply chain analysis.

- Scott, D. 2000. *Environmental aspects of the forest management certification process.* This report by a regular member of FSC certification audit teams examines the audit inspection instrument and provides commentary on its effectiveness with respect to environmental issues in particular.

- Clarke, J. 2000. *Social and environmental aspects of the forest management certification process: a discussion of social assessment components in South Africa.* This report, drawing on audit experience, tackles the ability of FSC certification and the certification process to improve the wellbeing of workers and communities dependent on plantations.

- Hamman, J. 2000. *Forestry certification: social aspects.* Also by a member of FSC inspection teams, this report analyses the composition and focus of the audit teams and highlights legal and social issues which can compromise the positive impact of certification.

- Dunne, N 2000. *The Impact of Environmental Certification on the South African Forest Products Supply Chain.* Seeking to understand the impact of certification on traders and retailers in South Africa and the UK, this study traces the route of FSC certified timber from mill to market.

- von Maltitz, G. 2000. *The impacts of the ISO 14000 management system on sustainable forest management in South Africa.* This study focusses on one company's decision to adopt ISO accreditation, comparing the impacts of the ISO system with those of FSC certification.

- Crawford Cousins, C. 2000. *The impacts of stakeholder consultation in the FSC certification process on sustainable forest management in South Africa.* Focussing on the Stakeholder consultation process within FSC certification, this report highlights key assumptions about the efficacy of consultation.

3. Outgrower schemes and community-company partnerships. Research into outgrowing and community-company partnerships concentrated on the two key provinces of KwaZulu-Natal and the Eastern Cape, the former containing the bulk of small grower development and the latter being the key area for both government and private sector activity aimed at building partnerships.

- Zingel, J. 2000. *Between the woods and the water: tree outgrower schemes in KwaZulu-Natal – the policy and legislative environment for outgrowing at the regional level.* This report discusses the environment surrounding trends in outgrower development, both past and future.

- Cairns, R. 2000. *Outgrower timber schemes in KwaZulu-Natal: do they build sustainable rural livelihoods and what interventions should be made?* Focussing on case studies of outgrower households, this examines the role played by schemes in rural livelihoods.

- Ojwang, A. 2000. *Community-company partnerships in forestry in South Africa: an examination of trends.* This is a broad overview of types of partnerships in Southern Africa, with comparisons between forestry and other sectors.

- Andrew, M., Fabricius, C. and Timmermans, H. 2000. *An overview of private sector community partnerships in forestry and other natural resources in Eastern Cape*. Focussing at a provincial level, this report captures partnership trends in the Eastern Cape, drawing on five case studies.

- Sisitka, L. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Lambazi case study.* This case study examines the relationships between stakeholders and actors in a corporate-initiated scheme

- Cocks, M., Matsiliza, B. and Fabricius, C. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Longweni woodlot case study*. This report

examines community preferences and options for the use of a woodlot in the context of opportunities provided in the forest restructuring process.

- Sisitka, L. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Umzimkulu case study.* This is a study of a corporate-community joint venture project in a part of the province that has good afforestation potential.

- Cocks, M., Matsiliza, B. and Fabricius, C. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Manubi woodlot case study.* This study examines issues around partnerships and joint forest management around a state-conserved indigenous forest

- Ham, C. 2000. *The importance of woodlots to local communities, small scale entrepreneurs and indigenous forest conservation.* Comparing issues and opportunities arising around two woodlots, this study highlights the relative importance of government-planted woodlots to different community interest groups.

1.3 Structure of this report

Following this introductory section the report is structured in the following way.

- Section 2 *Setting the scene* – a profile of private sector forestry in South Africa – outlines the history, current status, contribution to the national economy, and developing policy context of forestry enterprise in South Africa.

- Section 3 *Privatisation of publicly owned plantations* – highlights the main mechanisms involved in the redistribution of forest assets and their impacts to date.

- Section 4 *Impacts of forest certification* – describes the spread and effects of certification on forests, stakeholders, supply chains and policies to date.

- Section 5 *Company-community deals* – examines outgrower schemes and community-oriented partnerships, aiming to understand the evolution and impacts for each of the main types of partnership.

- Sections 6 and 7 respectively highlight *key challenges* for the future of sustainable private sector forest development in South Africa, and posit *options* for achieving it.

Setting the scene – private sector forestry in South Africa

2.1 South Africa's forest sector – a brief overview

South Africa's forests play important economic, social and environmental roles. The sector can for analytical purposes be divided into two distinct components. Firstly, the formal commercial forestry sector, comprising industrial forestry plantations and the industries these support. Secondly, an informal sector relating to forest goods and services generally used at the household level, but which are rarely bought and sold.

Considering the informal sector first, a wide range of important forest goods and services are derived from South Africa's limited closed canopy indigenous forest and far more extensive woodlands. The current extent of closed canopy indigenous forest is estimated in the region of 350,000 and 500,000 hectares – about 0.3% of South Africa's surface area of 122 million ha. The original extent of this forest type, which is essentially confined to the wetter coastal fringes of an essentially dry and unforested country, is the subject of conjecture and debate. However, it is unlikely that the area ever represented more than a tiny fraction of South Africa's total land mass given the limitations set by climate and naturally occurring fire in a landscape where climax grasslands predominate. Nevertheless, these forests provide significant environmental and social values. Many of them are formally designated as protected areas, and all indigenous forest is protected by law.

Far more extensive in area, and important in terms of their economic, environmental and social value, are South Africa's woodlands. Definitional issues around woodlands are complex and contentious such that significant discrepancies in the estimated area exist. But it is likely that woodlands currently cover some 23 million hectares of the country. This is about half of the original estimated extent reflecting a long history of conversion to agriculture, in part at least accelerated and facilitated by agricultural policies. While definitive information is limited, it is believed that about 12% of the arid and maybe 5% of South Africa's moist savanna woodlands are in protected areas – mostly areas conserved for wildlife and other ecological purposes rather than for the protection of the woodland itself.

The contribution of woodlands to South Africa's national economy is poorly understood and, as in many countries, their real contribution fails to be recognised by traditional approaches to national income accounting. However,

from the perspective of energy use alone, estimates suggest that up to 20% of South Africa's total energy consumption is derived from biomass mostly derived from the woodland resource. Biomass energy and other resources derived by households are of great importance to the poor in rural areas.

South Africa's commercial forest sector is essentially based upon a plantation resource created in a little over 100 years. Some controlled harvesting of indigenous forests does occur, but on a very small scale. The total industrial plantation estate currently extends over 1.5 million hectares, or around 1.2% of South Africa's surface area, but as will be discussed below, plantations are concentrated in areas providing favourable climatic conditions. By international standards, South Africa's plantation area is small, making up just 1% of the estimated global plantation estate of 127 million hectares, but it contains some of the most productive plantations in the world. Consequently, although limited in size, these plantations support a large wood processing and value adding manufacturing sector, which makes a very significant contribution to South Africa's economy.

Figure 1 Percentage of land area under plantations, woodlands and indigenous forest cover in South Africa

No forest cover 79.5%

Indigenous forests 0.3%

Plantations 1.2%

Woodlands 19.0%

The development of South Africa's forest industry reflects a number of factors and influences, both local and international in their origin. The need to respond to changing market, economic, social and policy influences has shaped the industry structure and will continue to do so. It is in this context of change and dynamism that instruments and mechanisms to achieve better forestry must be seen. This chapter seeks to briefly set this context by:
- outlining the industry's historical development, focusing on identifying the important and changing influences on the industry over time;
- describing the industry as it currently exists, looking in particular at emerging key trends;
- reviewing recent significant policy changes which impact upon the forest industry; and,
- considering the likely future direction the industry will take considering the impact of important policy and market influences.

2.2 Development of South Africa's forest industry – a brief history

In a little over 100 years South Africa's forest industry has emerged as a major component of the economy involving industry players of international scale and significance active both locally and internationally. Five broad phases of development can be defined.

1876 – 1914: Initial state sponsored afforestation

Purposeful afforestation efforts in South Africa began in the late 19th century in order to provide an alternative to fast disappearing (and in any event limited) natural local forest resources, and costly imported timber. The first state-owned plantation was established in 1876, with high demand for construction timber and mining supports providing a rationale for the state to establish timber plantations in order to meet demand which, if unmet, could have significantly impeded the development of South Africa's nascent mining and industrial sectors. By 1910 the afforested area in South Africa had risen to an estimated 120,000 hectares, mostly in what is now the Western Cape, and almost all of it under state control.

1914 – 1939: Rapid afforestation led by the state

During this period, the South African government, as in many other countries, assumed a major role in creating forest resources through plantation establishment. Initially in response to a policy of self-sufficiency, and encouraged by wartime interruptions to imports, the state embarked upon a major programme of afforestation. As elsewhere, government assumed responsibility for creating forest resources, in the national interest, when the private sector was unwilling to do so given the cost, risk and length of investment required. The additional, more immediate benefits of employment creation in the depression years (although only for unemployed whites) added a further impetus to the state's efforts, which continued to dominate the industry's development. This period also saw the expansion of processing facilities, again primarily under state ownership.

1939 – 1972: Continued rapid afforestation with increased private sector participation

Throughout the Second World War, and the immediate post war years, government continued to extend it, plantation estate and to establish processing facilities. These efforts were boosted in the post war years, by the implementation of the recommendations of a 1956 Government Commission into Socio-Economic Development. This Commission recommended the use of forestry for regional economic development in remote disadvantaged areas, essentially the areas that subsequently became South Africa's homelands. The commission identified an area of around 250,000 hectares – roughly equal in scale to the plantation area managed by the state in 1959 (257,000 hectares) – suitable for afforestation. Large-scale plantings began in

the Transkei, Ciskei, KwaZulu, Kangwane, Lebowa and Venda around this time and continued with a varying degree of pace under the respective Homeland administrations to which responsibility for these plantations passed. In total around 150,000 hectares of forest – of differing levels of quality and economic viability – were established.

The period also saw the emergence of significant private sector interest in the industry. Private sector processors established saw mills (often using material from state owned and managed plantations) and the area of plantation under private sector management began to steadily increase during a period of continued rapid afforestation. The area of plantation forest reached 693,000 hectares by 1950, of which 73% was in private hands by 1955. A system of incentives and guaranteed prices (fixed by the state) provided ideal conditions for the industry's development.

Significantly, this period also saw the emergence of pulp and paper as a rapidly growing element of South Africa's forest industry. While previous afforestation efforts were focused on sawn timber and mining supports much of the new afforestation in this period was focused on the increasingly important pulp and paper industry. Major industry players – such as Sappi and Mondi – also began to establish themselves during this phase of development.

Although much of the pace and initiative for plantation development during this period came from the private sector, the state continued to play a central role in the industry's development in several ways. Firstly, sawmilers enjoyed the dual benefits of low cost raw material provided from state run plantations and guaranteed minimum prices for their products ensured through a government approved timber pricing mechanism. Secondly, government through its various arms, provided significant incentives to investment in processing facilities in the form of subsidized and guaranteed loans.

1972 – 1994: Rapid development of private sector forestry within the context of controlled afforesation

By 1972, South Africa's plantation area had reached 1.025 million hectares. Of this, two thirds was in private sector hands (684,000 hectares) with the balance in public ownership (341,200 hectares). The private sector had emerged as the industry's dominant and dynamic force with an increasing focus towards a rapidly expanding pulp and paper industry.

In 1972 however, in response to long held concerns regarding the impact of uncontrolled afforestation on South Africa's stressed water resources, controls on new afforestation in critical river catchments were introduced through an Afforestation Permit System (APS). The APS established the areas and permissible extent of new afforestation in a particular catchment, based upon an acceptable estimated reduction in river flows. It also prohibited afforestation in wetlands and close to watercourses. These conditions essentially remain in force today.

Significant new afforestation however continued throughout this period. By 1994 the plantation estate had risen to an estimated 1.4 million hectares with nearly all of this additional planting undertaken by the private sector, primarily in response to increasing demand, including that from new overseas markets. Rapid expansion of the plantation estate permitted significant development of new pulp and paper capacity, supported in part by a range of government assistance aimed at developing the sector, and in particular stimulating its export potential. These measures included tax incentives and a General Export Incentive Scheme under which government made payments to industry up to the value of 5% of export values. This in effect provided South African exporters with an immediate 5% cost advantage. Import tariffs were also in place, ranging from 10% to 30% on various pulp, paper and board products.

These incentives contributed significantly to the rapid expansion of the pulp and paper industry during the 70's and 80's. All have now been removed leaving the industry to compete on level terms with international processors.

Two other themes also characterize this phase of the industry's development. Firstly, in common with wider international trends, this period saw an increasing level of concentration and vertical integration within the industry, particularly pulp and paper. Both trends reflected the enormous capital requirements of new pulp and paper investments and the investors' desire to ensure adequate throughput into newly commissioned processing facilities in order to realise a return on investments made.

Secondly, this period saw the industry emerge as a significant international player looking increasingly outside of South Africa for its future. Throughout this period export markets became more important to the industry such that by 1994 around 40% of its output in value terms was exported. The industry's increasing international focus was further consolidated by the significant acquisition of overseas assets by South African companies who invested heavily in forest resources and processing capacity, particularly during the late 1980s when pulp and paper prices were buoyant and producers' confidence high.

1994 – present: A mature industry facing new policy and market pressures

By the time of South Africa's first democratic elections in 1994, the forest industry had emerged, in a comparatively short time span, as a successful sector making a significant contribution to the national economy. This success was underpinned by a number of key factors, specifically:

• Strong local demand for forest products combined with limited overseas competition due to early protection (essentially of the saw-milling industry) and the distance from competitors.

• Availability of suitable land to permit the rapid expansion of plantations yielding high-quality wood at internationally competitive cost.

- Supportive government policy which had emphasised self-sufficiency and industrial development through import controls and export incentives.

- The initial direct role played by the state in creating forest resources, which had formed a basis for the subsequent development of processing industries.

The industry has however now entered a new phase: one of new opportunities and challenges. These changes partly reflect recent political change, but they also reflect changes in South Africa's economy and the industry's increasing exposure to international markets. The industry's future success, and the direction it takes, will thus be fundamentally determined by its ability to respond to:

- International market trends – recognising that increasing participation in the international market place increases exposure to its volatility.

- Domestic economic factors – relating partly to demand conditions but also to key supply conditions which will affect the 'cost of doing business' for an increasingly internationally-focused industry.

- Forest policy changes – including the decision by government to divest itself of its plantation holdings considered in section 3.

- Policy changes in other areas – these are key to the industry's success, including: land, water resources, environment, trade and labour policies.

It is in this context that any review of the relevance and practicality of private sector instruments to achieve sustainable forest management must be set.

2.3 South Africa's forest industry today

2.3.1 The current extent of the plantation estate

In 1999 plantations extended over 1.5 million hectares of South Africa. While this represents just 1.2% of South Africa's total landmass, this must be seen in the context of a country where biophysical conditions conducive to commercial afforestation occur in just 15% of its total area. These are also areas of high alternative land use potential, where competition with other land uses is high. Plantations are therefore concentrated in a relatively small area of the country – essentially in provinces where rainfall exceeds 800 mm per annum – specifically in: Mpumalanga, KwaZulu-Natal, Eastern Cape, Western Cape and the Northern Province (Table 1). In terms of species: 52% of the total plantation estate is under pines; 39% is under eucalypts; just over 7% under wattle, with the balance comprising other species such as poplar for match manufacture. Plantation companies also manage an estimated further 500,000 ha of unplanted land consisting of wetlands, indigenous forests, grasslands and infrastructure which they are obliged to manage for biodiversity, watershed protection and a range of social benefits.

Table 1 Plantation area by species and province

Province	Plantation Area ('000 ha)			% of Total Area
	Softwood	Hardwood	Total	
Northern Province	35	32	68	4.5
Mpumalanga	329	291	620	41.3
KwaZulu-Natal	210	357	567	37.8
Eastern Cape	146	23	170	11.3
Western Cape	72	5	77	5.1
TOTAL S. Africa	**791**	**710**	**1,501**	**100.0**

South Africa's plantation area continues to increase. The pace of afforestation in recent years has however decreased from the late 1980s and early 1990s when it reached a peak of 45,000 hectares in 1991. Since 1996, new afforestation has proceeded at a level of around 11,000 hectares per year. Poor market conditions and the relatively slow granting of new afforestation permits largely account for the slowdown in new plantings in more recent years. This pattern of growth also varies across regions – for example the Eastern Cape has seen some recent growth while Mpumalanga's afforested area has decreased a little as a consequence of withdrawing from some areas planted inappropriately before the permit system introduced in 1972.

By early 1999, nearly 70% of the total plantation area had been certified through either the Forest Stewardship Council and/or the International Organisation for Standardisation (ISO) 14,000 series. The percentage has increased since then, with the adoption of certification by members of timber cooperatives. Demands from export markets have provided a major stimulus to certification (see section 4.2).

From the above plantation resource an estimated 19 million m³ of roundwood is supplied annually. A breakdown of this total annual log supply by main end-use application is given in Figure 2. It should be noted however, that increasingly large amounts of mining timber are being used for pulp production given diminishing demand for mining supports.

Figure 2 End-uses of roundwood

Pulpwood 48.1%

Sawlogs 32.6%

Mining timber 11.1%

Other 4.2%

Poles 4.0%
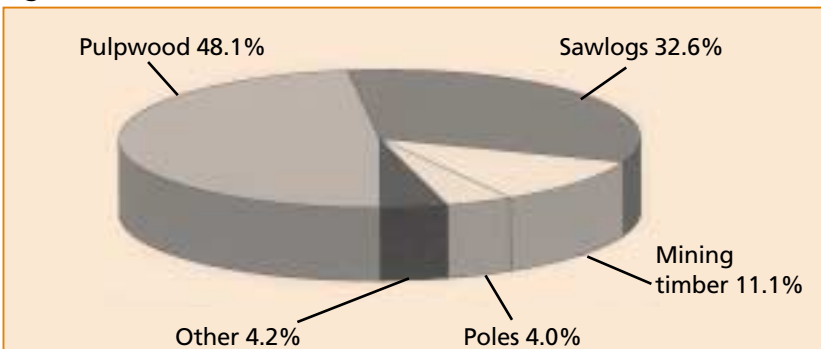
2.3.2 Ownership of the plantation resource

Geographical concentration of plantation resources is matched by a concentrated pattern of ownership – as shown in Figure 2. Of the current area of 1.5 million hectares: the state continues to own approximately 30%; two large companies together own 47%; 22% is owned by other, smaller private companies and individuals; and approximately 1% is owned by several thousand micro growers often established under outgrower and other small-scale grower schemes (see section 4.4).

Figure 3 Plantation Ownership in South Africa

State 30%

Micro growers 1%

Large companies
(Sappi and Mondi)
47%

Medium-sized companies
and private growers 22%
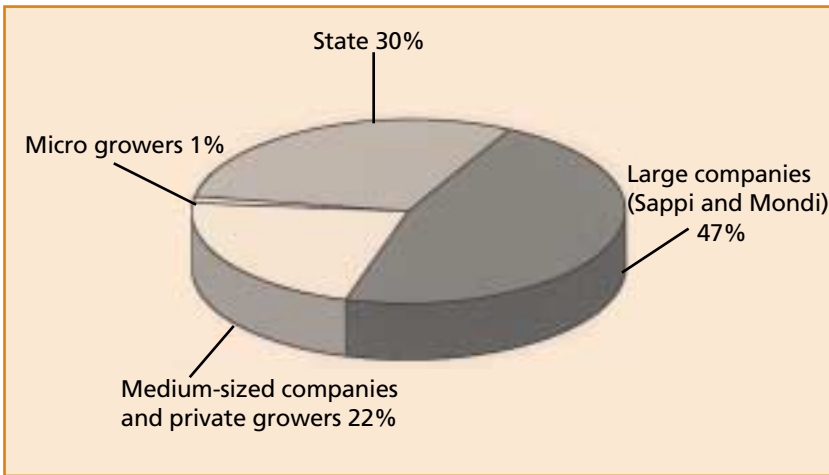
This concentration partly reflects the dominant role played by the state in the early phases of afforestation. The high degree of concentration within the private sector reflects a process of industry concentration and vertical integration seen in many countries as companies investing heavily in processing facilities seek to secure the necessary throughput to run those mills at high levels of utilization. Each of these industry constituents is discussed in some detail below.

The government

South Africa's publicly owned plantations comprise two – at least in terms of history – distinct elements. Firstly, the plantations of the former Republic of South Africa (RSA) established and managed by the RSA's Forestry Department. These operations were transferred from the Forestry Department in 1992 to a specially created company (SAFCOL) as a prelude to privatisation. SAFCOL is a wholly government owned corporation with its shareholding held by the Department of Public Enterprises (DPE) and a Board of Directors appointed by that Ministry. These plantations comprise about 262,000 hectares. In addition to these direct plantation activities, SAFCOL operates 5 sawmills and 2 telegraph pole manufacturing plants. Its main business is the production of softwood sawlogs for the domestic market with the majority of its output sold under contract to independent processors.

Secondly, the plantations of the former Homelands[1]. Some of these were established by the former RSA Forestry Department prior to the creation of the respective Homeland to which their management was subsequently transferred. Other areas were established by the Homeland administrations themselves. With the Homeland's re-incorporation into South Africa in 1994, responsibility for these plantations reverted back to the national Department of Water Affairs and Forestry (DWAF). These plantations comprise around 143,400 hectares.

In combination, these plantations represent approximately 30% of South Africa's plantation estate, and around 66% of the softwood resource. Annually they produce about 4 million cubic metres (25% of total annual production) and support a significant value-adding processing industry. It is government's intended policy to privatise these plantations, a process which began in 1998 and is discussed in greater detail in section 3.

The large international private sector players

South Africa's two largest private sector players – Sappi and Mondi – are themselves subsidiaries of much larger industrial conglomerates and, in one case (Mondi), a multinational company. They are also increasingly significant players on the international scene.

Sappi Forest Products owns and manages 490,000 ha of plantation forests in southern Africa. In 1998, these plantations supplied about 50% of the fibre requirements for its mills, which have the capacity to produce 1.8 million tonnes of bleached and unbleached pulp and dissolving pulp. Sappi's South African activities are however only a part of its total operations. A series of significant acquisitions in the 1980s and 1990s have made Sappi a world player, currently manufacturing 5 million tonnes of paper and 3 million tonnes of pulp in plants on three continents. It has customers in 150 countries and over 85% of its sales, and 70% of its US$6 billion assets, are outside South Africa.

Sappi's corporate strategy has been to develop the value added side of its business. Particularly following its 1997 acquisition of the European company, KNP Leykam, Sappi has become the world leader in the coated 'woodfree' paper market with 26% of market share in North America, 22% in Europe and 60% in Africa.

Mondi is jointly owned by Anglo American, De Beers and AMIC and manufactures pulp, paper, board and solid wood products. Mondi Ltd has an annual turnover of about US$ 2 billion; it manages 440,000 ha of timber

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[1] A central element of South Africa's apartheid system, was the creation of black Homelands from the 1950s onwards. These territories, essentially based upon the so called Black Areas identified in the 1913 Black Land Act, were set aside for occupation by members of a particular language group. Originally known as reserves, they were given a measure of self-government by apartheid theorists intent on removing all Africans from white South Africa, and to use the Homelands simply as pools of migrant labour. Four of these areas later chose independence (recognised only by South Africa) while six others became self administering territories within the RSA. The system was scrapped in 1994.

resources and employs 22,000 people.[2] In South Africa, Mondi produces chips, carton board, kraftliner, corrugating papers, newsprint, supercalendered paper as well as bagasse (sugarcane residue) fibre fluting. Some 40% of its production is exported.

Since the late 1980s, Mondi has been following a strategy of acquiring shares in foreign companies through its international arm, Mondi Minorco Paper (MMP), in order to develop a global presence. MMP is a partnership between Anglo American, Minorco and Mondi. The partnership currently has assets of approximately US$1 billion and earnings of around $100 million per annum. MMP owns 49% of Neusiedler, a leading Austrian manufacturer of copy and business papers, and has interests in European packaging and merchanting firms, pulp mills in Eastern Europe as well as a 50% stake in the UK based Aylesford recycled newsprint mill and a 12% stake in Aracruz, the Brazilian pulp manufacturer. Mondi's stated aim is to concentrate on A4 copy paper, pulp, newsprint and paper packaging.

Medium-size private sector players

There is a significant 'drop' in scale from the large concerns described above to the more medium-sized players in the forest industry. Nevertheless, there are an estimated 1,800 (primarily white) private commercial growers, who collectively own around 364,000 ha (24% of the total commercial timber resource base) making them collectively a significant group.

This grouping comprises some companies growing timber to support their own processing facilities, including a number of significant players such as:

- Masonite, with an estimated plantation holding of around 18,000 hectares feeding a hardboard mill.

- Hans Merensky Holdings, with a current plantation estate of 11,000 hectares (soon to include 60,000 of state owned plantation acquired through the privatisation process).

Other notable companies include: H.L. Hall & Sons, Thesens and Co., Crocodile Valley (Nelspruit), Yellowstone Timbers (Piet Retief), Rance Timbers (Eastern Cape) and Urbans Industries (George). These companies focus in the main on sawmilling and production of mining timber; they have some dependence on bigger forestry companies, principally SAFCOL as a timber supplier.

Small or micro growers

There are nearly 19,000 small or micro growers in South Africa, holding woodlots averaging around two hectares, and totalling around 43,000 hectares

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[2] In January 2001, Mondi entered into a joint venture agreement with the US-based investment management company Global Environment Fund and launched Global Forest Products, a proprietary company growing softwood sawlogs on 67,000 ha and processing these through three sawmills (http://www.globalenvironmentfund.com/GlobalForest.htm)

in extent. Just over twelve thousand of these growers are participating in company-sponsored outgrower schemes, falling under Sappi (Project Grow), Mondi (Kulanathi) and SAWGU, and these growers cover a total recorded planted area of at least 24,000 hectares (see section 5)

Small grower plantings occur mainly in the Zululand region of the KwaZulu-Natal province (two thirds of small growers, only 50% of which belong to schemes), and forty five percent elsewhere in the same province. Less than one percent is located in the Eastern Cape (and these latter have much larger holdings on average).

Private sector associations and industry representation

There are a number of growers and processors associations (and one umbrella association emerging for growers). These cluster around the central Forest Industries Association (FIA) – a loose federation which serves as the central channel of communication from the industry to government and other stakeholders. The links between the main associations are illustrated in Figure 4

Figure 4 South African forestry private sector associations
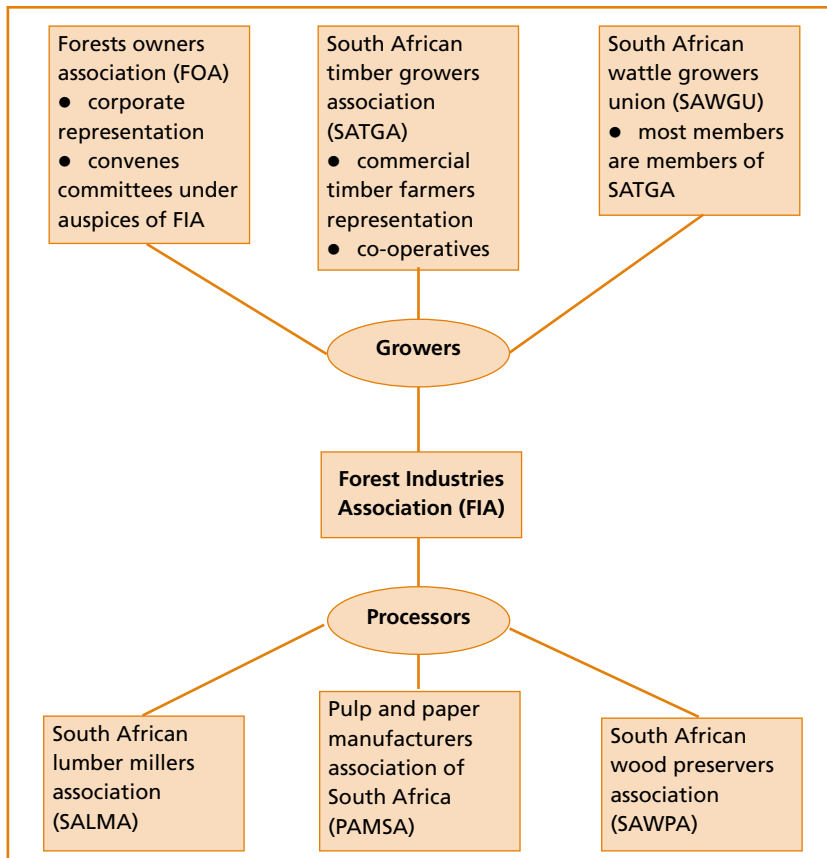
South Africa's forest industry meets about 90% of domestic demand for forest products and employs about 110,000 people

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As of 2002, Forestry South Africa becomes the umbrella association for the industry's growers. It effectively merges the operations of the South African Timber Growers Association (SATGA) and the Forest Owners Association (FOA). The South African Wattle Growers Union (SAWGU) remains separate although most of its members also belong to SATGA. Forestry South Africa plans to provide small emerging timber farmers an opportunity to be represented: 50% of the executive committee will represent large growers, 30% will represent medium-sized growers and 20% small farmers. It is to be headquartered in Johannesburg, with an office in Pietermartizburg to service the interests and needs of smaller growers in particular (see section 5).

In addition to these sectoral representation associations, an important institution for the sector is the Forest Industries Training Authority (FITA). This is the forest sector's version of a Skills Education and Training Authority (SETA), which are in existence or under development for all industrial sectors. FITA draws a levy of 1% of companies' total payrolls for programmes of skills development and training.

2.3.3 The processing industry

Pulp and Paper Industry

From its earliest beginnings, but particularly during the last three decades, South Africa's pulp and paper industry has grown rapidly. Since 1970 the industry's capacity has expanded at an average annual rate of 5.2% – a growth

rate continuously outstripping the 3% per annum increase in world pulp and paper capacity recorded over the same period. Today, capacity is three and a half times its 1970 level.

The industry currently produces around 2.1 million tons of pulp from wood fibre and bagasse (sugar cane residue) of which over 30% is exported. The remaining 1.4 million tons of pulp are combined with 670,000 tons of waste paper to produce just over 2 million tons of paper and board. This ranks South Africa as the 12th largest producer of pulp in the world and 24th in terms of paper and (paper) board production. The industry produces a comprehensive range of pulp, paper and board products and supplies the bulk of local demand.

The value of output of the pulp and paper industry in 2000 was estimated at around R10 billion per annum (US$ 1.4 billion). Exports of pulp, paper and board products R4.4 billion (US$ 600 million) during that year, represented 44% of the total value of production. The industry directly employs 13,000 people in its various pulp and paper mills. In addition to this an estimated 17,000 forestry workers and transport contractors are employed directly by the industry for the growing and supply of fibre raw materials. Details regarding production, imports and exports are presented in Table 2.

Table 2 South African paper and board production trade, and apparent consumption (1999)

Product	Production (tons)	Exports (tons)	Imports (tons)	Apparent Consumption (tons)
Printing and writing papers				
Uncoated Paper	339 000	105 000	35 000	269 000
Coated Paper	75 000	4 000	28 000	99 000
Newsprint	328 000	106 000	5 000	227 000
SC Mechanicals	92 000	42 000	52 000	102 000
Packaging papers				
Linerboard	646 000	287 000	16 000	375 000
Fluting	213 000	31 000	8 000	190 000
Other Kraft Paperboard and Fibreboard	203 000	19 000	147 000	331 000
Tissue	145 000	18 000	5 000	132 000
Total Paper & Board	**2 041 000**	**612 000**	**296 000**	**1 725 000**
Pulp				
Paper Pulp	1 642 000	280 000	63 000	1 425 000
Dissolving Pulp	476 000	448 000	–	28 000
Total Pulp	**2 118 000**	**728 000**	**63 000**	**1 453 000**

Source: LHA consultants 2001 pers.comm.

South Africa's pulp and paper exports – as discussed below – make a significant contribution to the national economy, but tend to the lower value added range of pulp and paper products. Most notable perhaps is dissolving pulp, used in the manufacture of viscose fibre. Sappi's Saiccor mill is the world's single largest producer of dissolving pulp with an annual capacity of 600,000 tons. Imports largely consist of low volume and specialty papers and board products, that cannot be economically manufactured locally, and high quality hardwood pulp for which South Africa lacks the raw material resources.

The industry is highly concentrated with four main groups of companies namely Mondi, Sappi, Nampak and Kimberly-Clark and a handful of smaller producers. These four groups combined produce almost 98% of national pulp, paper and board production. Mondi and Sappi are both fully integrated being actively involved in the forestry industry as well as pulp and paper production. Nampak and Kimberly-Clark are not linked upstream to fibre production, but are integrated downstream into paper and board product manufacture.

The four main companies operate a total of seventeen pulp, paper and board mills in South Africa. Pulp production is even more concentrated given the high costs of investment in the industry. It is undertaken exclusively by Sappi and Mondi in nine mills (Table 3).

Table 3 South African pulp production capacity			
COMPANY	**MILL**	**PRODUCT**	**CAPACITY** (tons per annum)
MONDI	Merebank	Thermal Mechanical Pulp	150 000
		Groundwood Pulp	120 000
		RCF (Recycled Fibre)	85 000
	Felixton	Bagasse Pulp	70 000
	Richards Bay	Hardwood and Softwood Pulp	575 000
	Piet Retief	NSSC Pulp	80 000
SAPPI	Enstra	Bleached Hardwood Pulp	72 000
	Ngodwana	Hardwood and Softwood Pulp	388 000
		Groundwood Pulp	100 000
	Stanger	Bleached Bagasse Pulp	55 000
	Tugela	Bleached Softwood Kraft Pulp	220 000
		Hardwood NSSC Pulp	110 000
	Saiccor	Dissolving Pulp	600 000
TOTAL	–	**All Grades**	**2 625 000**

Source: LHA consultants 2001 pers.comm.

All these mills have primary pulp production capacity. They take in raw material such as pulp logs, woodchips and in two instances bagasse. With the exception of Saiccor all the mills utilise a large percentage of their pulp output to produce a range of paper and board products. Saiccor is the only mill that produces only pulp and almost the total output of this facility is exported.

In terms of paper and board products, while the industry has slightly more participants than pulp manufacture, capacity remains essentially concentrated in a limited number of hands. Table 4 illustrates current capacity and main products produced.

Table 4 South African paper and board production capacity			
COMPANY	**MILL**	**PRODUCT**	**CAPACITY** (tons per annum)
KIMBERLY-CLARK	Enstra	Crepe Tissue	50 000
MONDI	Merebank	Newsprint and Telephone Directory	230 000
		Supercalender Mechanical Papers	120 000
		Uncoated Fine Papers	210 000
	Felixton	Fluting Medium	100 000
	Richards Bay	White Top & Unbleached Kraft Liner	235 000
	Piet Retief	Unbleached kraft liner, Testliner and Fluting	126 000
			130 000
	Springs	Paperboard	
NAMPAK	Bellville	Crepe and Flat Tissue	32 000
	Kliprivier	Crepe Tissue	24 000
	Rosslyn	Fluting and Test Liner	50 000
	Riverview	Crepe and Flat Tissue	10 000
SAPPI	Adamas	Uncoated, Industrial & Packaging Paper	36 000
	Cape Kraft	Test Liner, Fluting and Ceiling Board Paper	55 000
	Enstra	Uncoated Printing and Writing Paper	163 000
	Ngodwana	Kraft Liner and White Top Liner	235 000
		Newsprint	140 000
	Stanger	Coated Fine Paper	62 000
		Tissue paper	29 000
	Tugela	Kraft Liner, Fluting and other Kraft	377 000
Other	*	Crepe and Flat Tissue	45 000
TOTAL	**–**	**All Grades**	**2 459 000**

Note* Swazi Paper, Vanessa, Bophuthatswana Tissue, Paarl Paper and Crystal Paper
Source: LHA consultants 2001 pers.comm.

Boards and panels

South Africa currently produces an estimated 800,000 m³ of a range of board products described in Table 5. These products are used in the furniture, joinery and packaging sectors, the building industry (consisting of the cladding, partitioning and ceiling sectors) and the home-improvement or DIY market.

South Africa is essentially self-sufficient with regard to board product. Available information indicates that imports and exports of board products are limited and more or less balanced, with total imports less than 5% of estimated national consumption.

Table 5 South African board and panel production		
Product	**Quantity (000 m³)**	**% of Total**
Chip/particle board	650	74
Hard/fibreboard	137	16
Plywood	33	4
Medium density fibreboard (MDF)	22	3
Ultraboard	20	2
Blockboard	18	2
TOTAL –	**880**	**100**

Source: LHA consultants 2001 pers.comm.

As shown in Table 6, a number of companies are active in the board manufacturing sector, but three of them – Bisonboard, Sonae and Masonite – are dominant comprising 88% of production.

Most companies are strongly integrated with their raw material suppliers as well as their marketing channels, as shown in Table 7.

Table 6 South African board and panel industry structure			
Company	**Most important shareholders**	**Annual production (000 m³)**	**% of Total**
Bisonbord	Mondi, PG Bison	400	46
Sonae Novobord[1]	Sonae Portugal	230	26
Masonite	Masonite USA	137	16
Mondi Timber Products	Mondi	24	3
Chipboard Industries	Italian Mother Co.	20	2
Ultraboard	HL&H, Rembrandt	20	2
Uniply	Thesens, Barlows	49	6
TOTAL	**–**	**880**	**100**

Note: 1) Previously Sappi Novoboard   **Source:** LHA consultants 2001 pers.comm.

Table 7 Integration in the South African board and panel industry

Backward Integration (Raw materials)	Board Product Manufacturer	Forward integration (Marketing)
Mondi	Bisonbord	PG Wood
Various sources	Sonae Novobord	Novo Homes, exports
Own Plantations	Chipboard Industries	None
Own Plantations	Masonite	Ezebilt
Saw Mills/Plantations	Mondi Timbers	Low-cost Housing Division
Thesen's Saw Mills	Uniply	Low-cost Housing Division
Transvaal Sugar Limited	Ultrabord	Afcol

Source: LHA consultants 2001 pers.comm.

Sawmilling

South Africa's saw mills process both hardwood (predominantly eucalypts) and more significantly softwood into a range of sawn timber products. The industry currently utilises around 4.36 million m^3 of logs, which at an average industry yield of 43% provide an output of around 1.870 million m^3 of timber. A breakdown of sawn timber by major end-use application is presented schematically in Figure 5.

Figure 5 Supply and demand of locally produced sawn timber [1] in South Africa (1999)
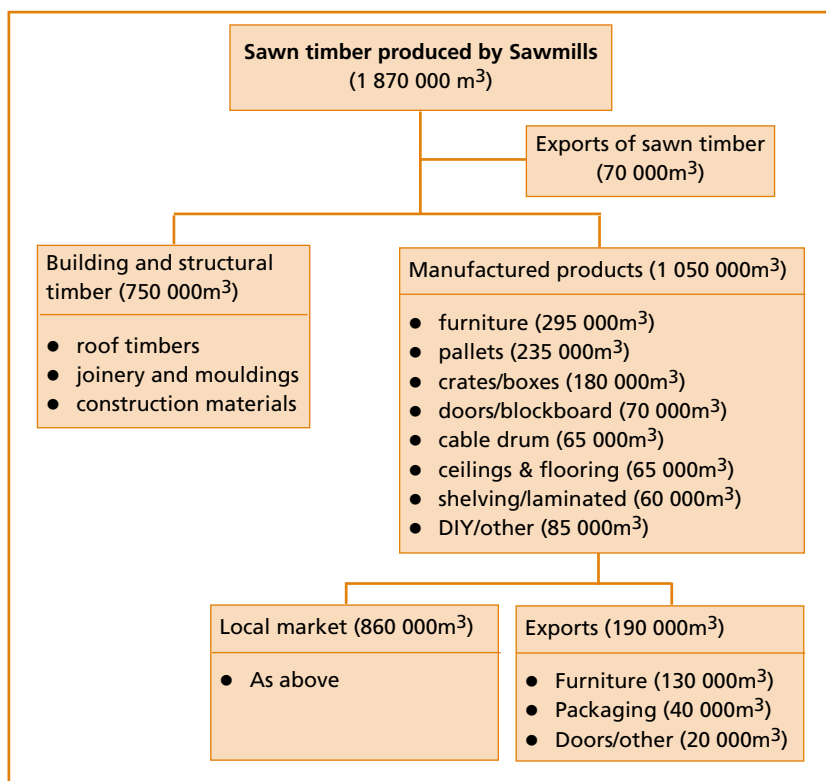
Note 1) The above excludes imported sawn timber. Imported sawn hardwoods are used for:

Joinery	120 000m^3 pa	Furniture	60 000m^3 pa
Mouldings	30 000m^3 pa	Other	10 000m^3 pa

About 60% of sawn timber production is further processed into a range of final products; 4% of sawn timber production is exported with the balance finding application as structural timber in the building and construction industry. Industrial timber is supplied to downstream manufacturers which produce furniture, pallets, packaging materials and value added building materials. Structural timber is mostly supplied to building merchants, which supply the builders' market. Some of the major merchant groups add further value by producing pre-fabricated roof trusses, mouldings, laminated products, etc.

In terms of softwood sawmilling, the average log intake in the late 1990s amounted to about 4.1 million m^3 per annum. Softwood sawlogs supply is significantly concentrated with government remaining a major supplier (Figure 6).

Figure 6 Softwood sawlog supply in South Africa
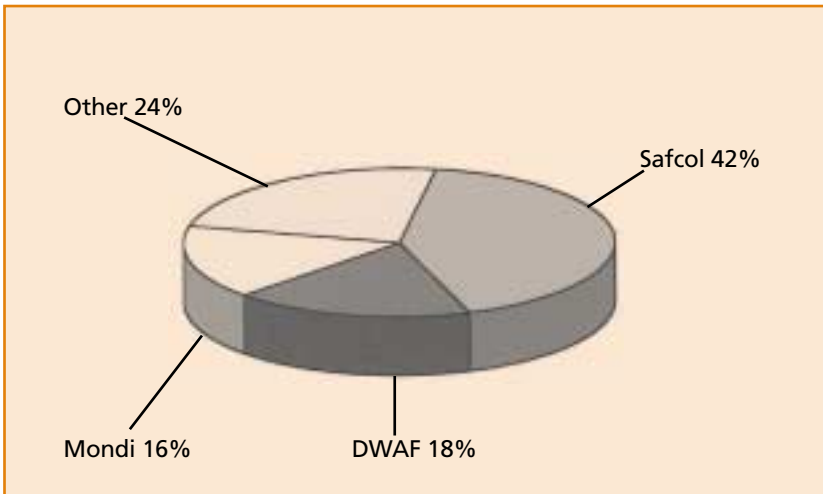
The output of the local softwood sawmilling industry is estimated at 1.75 million m^3 per annum from an estimated 330 active sawmillers. Sawmills range in size from large operations with a log intake in excess of 200,000 m^3 p.a. to small-scale mills (including numerous small so called 'bushmills') with an intake of less than 5,000 m^3 p.a.

The local hardwood sawn timber industry consumes an average of 260,000 m^3 of hardwood logs to produce a range of sawn hardwood products. Local production of hardwood sawn timber is estimated at 120,000 m^3 of which about half is used in mining applications. The market is dominated by Hans Merensky Holdings (HMH) which produces about 70% of all hardwood timber. Mondi is the second largest supplier with an estimated market share of 20%. The bulk of hardwoods used for the furniture and joinery industries is imported with total imports amounting to about 220,000 m^3 per annum.

In overall terms the sawmilling industry has many more participants than the more capital intensive pulp and board industries where the scale of necessary

investment acts as an effective barrier to entry. Capacity however, remains significantly concentrated: while small-scale mills account for almost 65% of the total number of establishments, they only process about 10% of the sawlogs. In contrast, the ten largest sawmills account for an estimated 31% of total production throughput (Table 8). As a consequence market share is also concentrated (Figure 7).

Table 8 South Africa's sawmills		
Log intake (m³ pa)	Number of mills	Estimated total log intake (m³ pa)
< 5000 5 000 – 20 000 20 000 – 50 000 50 000 – 100 000 > 100 000	220 50 45 15 10	450 000 610 000 1 050 000 900 000 1 350 000
Total	340	4 360 000

Source: LHA consultants 2001 pers.comm.

Figure 7 Estimated market shares of South Africa's sawmilling (late 1990's)
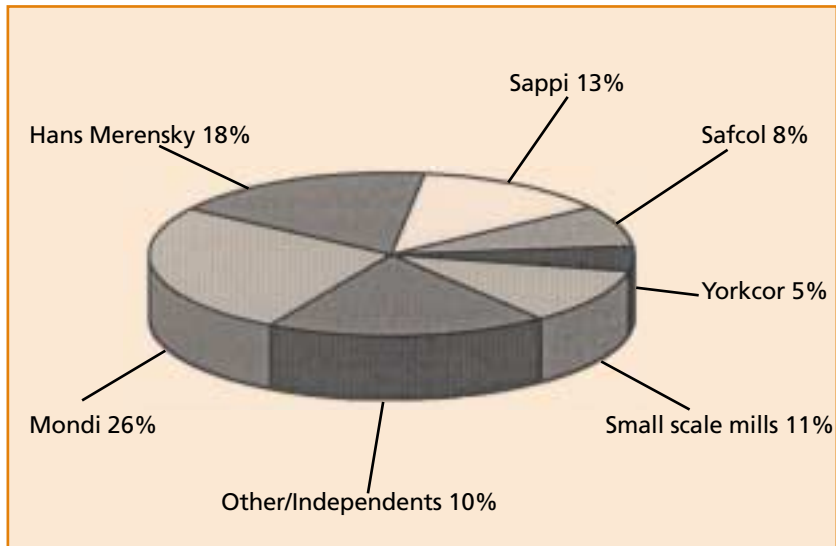
Over the past decades there has been a continuous shift away from structural applications to value adding applications for sawn timber. It should be noted, however, that some of the manufactured products such as ceilings and flooring, shelving and doors finally find application in the building sector. The building and construction sector therefore accounts for about 50% of the final demand for all softwood sawn timber produced in South Africa.

The sawmilling sector has remained comparatively static showing very little growth over the past 20 to 30 years. Key in this regard has been the relatively slow growth in demand from traditional applications (building and construction and mining) combined with active substitution in most of the markets where sawn timber used to dominate such as in certain building applications, packaging applications, mining supports etc. This tends to further restrict the growth potential for sawn timber. Based on historic trends and likely future developments, the longer term growth in demand for sawn timber is forecast to be between 1% and 2% per annum – thus it is likely to remain a low growth market.

2.3.4 Recent trends in doing business – outsourcing fibre production and contracting out

There is a clear trend within the large companies to focus on their core business – in the main, producing pulp and turning it into paper products – and to withdraw from activities that are not essential or peripheral (but nonetheless still vital) to this core. This is important in two key areas: outsourcing of wood fibre and contracting out of intermediate forest services. In both areas, significant changes are taking place in the way companies are doing their business, in response to changing circumstances.

Outsourcing of wood fibre for processing

Large processing companies – particularly those manufacturing pulp and paper – simply require wood fibre to process into value added products. It is essentially immaterial to that business process whether they grow it for themselves, or contract others to produce it on their behalf. While ensuring adequate security of throughput into capital intensive mills, which must be run at high levels of utilization to return profits is significant, this needs to be seen in the context of the costs and risks to the companies of maintaining large land holdings.

Recent changes in legislation and policy described below, along with the general international trend to concentrate on core business, provide an increasingly powerful rationale for companies to outsource the timber they process rather than to hold land and grow it themselves. The possible imposition of a land tax through an upcoming Act governing rates on properties, and concerns regarding the processes of land claims and redistribution of land through the national land reform programme, represent serious concerns to companies. In addition, holding extensive areas of land and forest involves tieing up large amounts of capital in the low value-added end of the process.

The balance of these different forces in South Africa appears to be changing. In South Africa, both large pulp and paper companies are increasingly utilising wood fibre sourced through contractor growers – both large and small. Although precise figures are difficult to determine industry's own figures indicate that Mondi supplies about 60% of their own requirements in-house and Sappi about 50% of their own requirements with the balance being

'bought-in'. It is interesting to note however that so far at least, no companies have yet dispensed of any of their land holdings.

Contracting out of forestry functions

Contracting out aspects of forestry operations has become a significant feature within South Africa's forest industry, especially over the past ten years. Contractors are now engaged by companies in transport operations, harvesting and, more recently, plantation maintenance. There are currently between 160 to 200 forestry contractors in South Africa employing between 25,000 and 35,000 workers of the approximately 60,000 people directly employed in the forest industry.

From the companies' perspective the move to contracting out reflects a number of opportunities, including:

- Cost and efficiency savings – on average contractors use about 75% of the labour complement used by the corporate forestry sector per unit area worked. Further to this they employ more lower-skilled people and pay lower wages and salaries than those paid by the corporate sector; on average the contracting sector pays about 60% the rate paid by the corporate sector.

- Decreased exposure to labour unions.

- Reduced direct exposure to labour legislation.

- Reduced costs of some of the services associated with employment such as schools, crèches, clinics and the provision of utilities (water and electricity). All this is expensive, but companies are obliged to continue their worker support programmes in terms of occupational health requirement and other legislation.

The use of contractors by the different companies is however unequal. Sappi has embraced outsourcing in many of its operations, whilst Mondi has gone some way, but appears to have halted for the time being. SAFCOL has refrained from following the trend, given that the prospect of state forest restructuring caused this sort of medium-to long-term business strategy to be put on hold.

Contracting out offers an important opportunity for greater participation in the industry, particularly by entrepreneurs from the previously disadvantaged community a significant proportion of whom are contractors. While this is a welcome trend, particularly in terms of increasing industry representivity, the inescapable fact is that many people employed by contracting firms usually earn less than their counterparts directly employed by the big companies, although there are contractors who pay better than the companies. The majority of contractor employees are non-unionised. Poor conditions in the contracting industry are seen by many as a concern, and one which has, for example, emerged as a consideration in certification processes (see section 4).

In the future, the use of contractors is likely to increase. It is highly unlikely that trend will be reversed and that these services will again be provided in-house. Large companies may place whole districts under 'management contractors', who will in turn hire smaller contractors.

2.4 The forest industry's contribution to South Africa's economy

South Africa's forest products industries – particularly its pulp and paper component – has grown rapidly over recent years, based largely on South Africa's ability to produce wood fibre at competitive prices. From an effective base of zero in the 1940s, the pulp and paper industry now produces around 2.8 million tons of the global pulp production of 171.5 million tons (i.e. 1.63%), 2 millions tons of paper (0.76% of world production) and 1.3 million m^3 of sawn timber (0.3% of world production). Again on the basis of its rapidly developing pulp and paper sector, South Africa has made the transition from a net importer to a net exporter of forest products with an industry of international size and competitiveness.

In terms of its contribution to South Africa's economy, with a GDP of around US$ 110 billion, the industry currently generates in excess of US$1 billion, and in overall terms:
- meets about 90% of domestic demand for forest products
- contributes around 1.5% to GDP
- contributes approximately 5.5% to the manufacturing sector's contribution to GDP.
- provides 4.7% of total export earnings and about 10% of manufactured exports
- employs approximately 110,000 people.

The major exports of South African forest products include:
- pulp, especially dissolving pulp
- packaging, paper and board
- printing and writing papers, especially newsprint
- wood chips; an estimated 1,5 million tons is exported annually.

Table 9 South African imports and exports of forest products				
Description	**Import value (R'000)**		**Export value (R'000)**	
	1998	**1999**	**1998**	**1999**
Wood and paper products	754 140	723 919	1 410 139	1 923 686
Pulp	169 231	180 198	1 877 052	2 101 162
Paper and paperboard	2 250 279	2 324 190	2 107 261	2 322 228
Total average per annum	**3,200,979** **(US$ 550 million)**		**5,870,764** **(US$ 1,009 million)**	

Exports of other forest products such as sawn timber, manufactured items from sawn timber and wood based panel products are small, accounting for less than 10% of total exports. Table 9 provides average import/export figures for the last two years as reported by the Department of Customs and Excise.

2.5 The developing policy context of the forest industry in South Africa

Any meaningful review of important policy changes influencing the forest sector cannot simply be confined to forest specific policy. Many other policies outside of the narrow definition of the forest sector have a potent and maybe more influential impact upon the industry. This is true for some broad national macro-policies and some sectoral policies for land, water resources, environmental management and labour. Following a discussion of forest policy, each of these other important policy areas is considered below.

2.5.1 Forest policy

Like all sectors in South Africa, democratisation following the ending of Apartheid has required a fundamental reinterpretation and redefinition of the sector's role through the preparation of a new forest policy. Much of the debate surrounding policy development in South Africa has inevitably reflected domestic considerations. However, many of the major themes and principles providing the policy's overall direction are common to other countries and new directions in forest policy. In particular, those relating to, and resulting from, a widening of the forest policy remit away from the narrow concept of sustained yield of wood based products derived from the industrial forest sector, and towards a more embracing concept of managing all forests for the sustained yield of multiple goods and services for the benefit of multiple stakeholders.

In a society such as South Africa where social and, to some extent, environmental and resource use issues, consistently received scant and certainly secondary consideration relative to meeting the economic objectives of a minority, the development of a new forest policy along these lines is particularly significant. A clear coincidence exists between changing international perspectives on forest policy and South Africa's need to develop a policy for its forest sector, which embraces far-reaching economic and political changes.

The preparation of South Africa's new forest policy began in early 1995 with an exhaustive consultative process culminating in the production of a White Paper in 1996 policy (the White Paper on Sustainable Forest Development in South Africa, 1996). This was followed in 1997 by the preparation of National Forestry Action Programme and in 1998 by a new National Forests Act (No 84 of 1998).

The policy's overall objective is to promote a thriving and sustainable forest sector. This definition of policy encompasses all components of the forest sector, not just commercial industrial forestry. Achieving it requires a fundamental

change in the way that forests are viewed, valued and managed in the national interest. The new policy has a very clear emphasis on redefining the respective roles and obligations of key sector players – specifically redefining the role of the private and public sectors and their relationship to each other.

In terms of the forest industry a number of objectives were set, of which the following are particularly relevant to this discussion, specifically that government would:

- Seek to encourage the industry's further development – within the context of wider national policies and objectives – so increasing the industry's contribution to the national economy for the benefit of all South Africans.

- Seek to ensure that the industry moves rapidly towards sustainable forest management to ensure its long-term viability.

- Seek to encourage increased competition within the industry and the development of further value addition to South Africa's raw material base.

- Identify means to widen the representivity of participation in the forest industry in which ownership, as noted above, remains concentrated in a limited number of hands.

- Withdraw from the ownership and management of plantation forests under its control so allowing government to assume a smaller but vital role as a regulator rather than a participant in the forest industry. As will be seen below this provides government a very powerful tool with which to shape the forest industry.

  In pursuit of these objectives Government has introduced new forest sector legislation – the National Forests Act – which has as its central purpose the sustainable and equitable development of South Africa's forests for the national benefit. Sustainable forest management (SFM) lies at the centre of this legislation, which provides for the identification of a set of criteria and indicators of SFM and the establishment of minimum management standards based upon these.

2.5.2 Macro-policy

The main macro-policy framework relevant to the role of the forest sector in the development of South Africa can be highlighted through the following five elements:

- The *Constitution* has a clear commitment to goals of achieving equity, redress and increasing access to wealth by previously disadvantaged communities.

- The *Reconstruction and Development Programme (RDP)* commits government to meeting basic needs and alleviating poverty within the context of promoting sustainable development.

- The *Growth, Equity and Redistribution Strategy (GEAR)* provides the macro-economic implementation framework within which policies like the RDP now operate. It is premised on the need to reduce debt repayments, grow the economy (by creating jobs and increasing investments) and use surplus revenue for redistribution. It argues that redistribution without growth is unsustainable, and therefore cannot be pursued without aggressively addressing the issues of a stagnant economy. However, the 2001 Budget speech acknowledged that GEAR had not met its intended job creation or investment targets and that rural communities had been disadvantaged by the urban bias of GEAR initiatives. The Rural Development Framework was developed to address these shortfalls.

- The *Rural Development Strategy*, developed on the base provided by the *Rural Development Framework*, is directed to the provision of infrastructure and services, and to the creation of an enabling framework for the expansion of rural livelihoods with emphasis on the role of local government. The RDS defines the role of government in supporting rural development, showing where inter-sectoral planning and co-ordination are needed, and describing the assistance which can be made available to rural people.

- The *Local Government: Municipal Structures Act (1998)* and *Municipal Systems Act (2000)* allocate responsibilities to local governments follow an Integrated Development Plan process. Municipalities are the only institutions of government with the potential ability to engage in development and management of woodlands. As has been described in section 2.1, these woodlands cover a much larger area than that under plantation forestry, and represent a key livelihoods resource for large numbers of poor people, yet to date have not been the focus of much attention in the forest sector.

Through such macro-policy directives, the forest sector is called upon both to play its part in sustainable development at national level, and to contribute to better living conditions and economic opportunity for previously disadvantaged sections of society.

2.5.3 Land policy

Formal recognition and reversal of past wrongs are central to South Africa's new democracy and are enshrined in its Constitution. This is perhaps most significant in respect of land issues, where past policies and actions epitomised the abuse of legal power to alienate intrinsic rights, so reinforcing poverty and inequality. South Africa's democratic land policy (Government of South Africa, 1997), supported by a body of legislation, consequently requires that where land acquisition can be shown to have been initiated, or effected through discriminatory legislation, or other unjust means, such land is subject to possible restitution. In addition, where land is held in trust by the state (as in the case of the former Homelands) underlying, even if unidentified land rights, are deemed to exist and any long-term occupants must be treated in law as its owners pending the eventual transfer of the land and title to them. In both

cases, legislation introduced to further protect rights, prohibits the sale or transfer of land where claims are possible, or pending, until that claim has been adequately researched and either validated or rejected by an independent Land Claims Commission.

The objectives of the three components of the land reform programme are:

- *Land Redistribution:* poor and disadvantaged people assisted to buy land with the help of a Settlement/Land Acquisition Grant.

- *Land Restitution:* returning land, or compensating victims for land rights, lost because of racially discriminatory laws, passed since 19 June 1913.

Photo: James Mayers

In a water-scarce country like South Africa, the benefits from trees like this wattle need to be weighed up against the large amounts of water they consume

- *Land Tenure Reform:* aims to bring all people occupying land under a unitary legally validated system of landholding. It will provide for secure forms of land tenure and help resolve tenure disputes.

The *Integrated Programme for Land Redistribution and Agricultural Development Policy* focuses on the establishment of commercial farmers of various scales. The objectives of the programme are largely to increase access to agricultural land by previously disadvantaged people, and to facilitate transfer of ownership of 15m ha in five years and approximately 30% of the country's agricultural land over the duration of the programme. It is anticipated that this reform initiative will improve nutrition and incomes of the rural poor; overcome the legacy of past, and facilitate structural change by assisting previously-disadvantaged people to establish small and medium-size farms. However, the budget allocated to the programme may be insufficient to have major impact. Furthermore, because beneficiaries are required to make a cash contribution to access the Grants, this presents an obstacle to poor rural communities who have little access to credit facilities.

The land reform programme affords both opportunities and threats to the commercial forest sector. Opportunities exist in that companies interested in investing in forestry can approach communities with land title. Potential threats to companies stem from the complicated land restitution claims process. Capacity within the national Department of Land Affairs to

process land claims is limited. As an example, the Board of Mondi agreed to an expropriation of 7,000 ha of land to be given to labour tenants in one area, but the process of land transfer from owner to claimant has been slow to get underway.

2.5.4 Water resources policy

South Africa is a water-scarce country, and the government estimates that the limits of economically usable, land-based fresh water resources will be reached in the first half of this century. In response, a national water and sanitation programme is being developed and the government is restructuring water charges and establishing catchment management authorities. Addressing inequality is a major objective – 'water security for all' is the cry.

This drive to improved and equitable water management reached a milestone in 1998 with the passing of the National Water Act (36 of 1998), arguably the most important piece of environmental legislation to have been developed in South Africa. In terms of the Act, the Government has overall responsibility for, and authority over, water resource management, including the equitable allocation and beneficial use of water in the public interest. The Act guides responsible authorities in the exercise of their discretion to issue, and to attach conditions to, general authorisations and water use licences. Forestry falls under the requirements of the Act, in that companies have to obtain registration as water users and apply for water use licences for new afforestation development (existing plantations do not necessarily have to be licensed in this way provided they were established legally).

The licensing system largely revolves around the projected stream-flow reduction impacts of new forests. New afforestation above ten hectares can only occur after a license for stream-flow reduction activities has been granted by DWAF. The granting of the license is decided by a panel in each province made up of the department of environmental affairs and conservation representatives, DWAF representatives and the forestry industry.

Understanding how different land uses impact on water resources is vital, and has received considerable attention. Plantation forestry consumes more water than the natural vegetation it replaces – a series of long term studies of afforested whole catchments in South Africa shows this. The total amount of water used by the forestry industry is approximately 1.4 billion m^3 annually which is about 7% of total water use in South Africa and about twice that of the sugar-cane industry.

The main water management intervention practised in the forestry sector is to leave unplanted buffer zones along rivers, wetlands and other water bodies – to reduce the risk of soil erosion close to stream channels and to avoid any increase in water use by riparian vegetation. However, alien species – chiefly wattles and pines – often spread rapidly into these riparian areas and it has been demonstrated that these self-established riparian trees can have significant effects

on stream flow. The government has pursued a '*Working for Water*' programme to remove many alien trees, citing the economic and socio-economic (job creation) benefits of the programme in addition to the benefits for water resources. Of course, from a livelihoods perspective, some poor people may derive greater value from, or be in greater need of access to, forest products than water. Getting the right balance between forest products and water resources, and between different stakeholder groups, is thus a major challenge.

Catchment management authorities are beginning to be set up, and will be responsible for allocating water under their purview to three categories with different purposes: strategic reserve, basic human needs and trade-able. Trade-able water is to be allocated to 'most beneficial use' and a key challenge is to develop systems that define and negotiate this within each catchment (and systems for making the resulting changes, e.g. re-allocation away from irrigated sugar cane towards rain fed agriculture, etc). Equity considerations and the precedents and legacy of previous distribution patterns will be key in this process.

2.5.5 Environmental policy

South Africa is signatory to a number of multilateral environmental agreements which have major implications for commercial forestry. These include the Convention on Biological Diversity, the Wetlands Convention (Ramsar) and CITES. Drawing on elements of these, the White Paper on the Conservation and Sustainable use of South Africa's Biological Diversity (July 1997) issued by the Department of Environmental Affairs and Tourism (DEAT) emphasises strict management of invasive alien plant species, and minimisation of impacts on biodiversity caused by various land use developments.

The National Environmental Management Act (107 of 1998) paves the way for the preparation of a national environmental management system. Sound environmental management is required to place people and their needs at the forefront of its concern, and serve their physical, developmental, cultural and social interests equitably. The Act requires that environmental impacts are considered before any development is undertaken, and DEAT have developed protocols and regulations pertaining to environmental impact assessments and other related checks.

The Conservation of Agricultural Resources Act, contains various provisions affecting the forestry sector. Regulations to the Act specify the weed status of various alien species and actions that must be taken for each class of weed. All plantation forestry species are declared weeds under this Act and various measures are to be taken to ensure that these species do not spread and contaminate adjoining natural areas. It is mandatory, by virtue of their declared status, to remove a number of weeds that occur in the indigenous forests and woodlands, although the magnitude of the task of doing so is beyond the budgetary resources of all the management authorities currently managing forests.

2.5.6 Labour policy

Labour issues are critically important concerns in the forest industry, and have been a major factor shaping the process of privatisation of publicly owned forests (see section 3). Since 1994 there has been a major revision of State policies and legislation designed to promote equity in labour issues. There are currently six relevant Acts – the majority of which have been passed since 1994, governing labour relations and practices in the Industry. These include the Labour Relations Act, the Basic Conditions of Employment Act, and the Employment Equity Act. In addition there are four new Acts which apply to tenure rights of employees and residents on forest land. These include the Labour Tenants Act and Extension of Security of Tenure Act which allow some workers to claim tenure on privately held forest land.

Some of this recent legislation – aimed at enhancing workers' rights and establishing the security of tenure of both farm and plantation workers – seems to have had the unanticipated consequence of hastening the rush of both farmers and plantation forest management towards the outsourcing of labour to private and competing contractors (see section 2.3.4). Policy and law is yet to gain effective influence on contractors. Often these contractors do not have written employment contracts, they may be in breach of statutes on conditions of employment, flout health and safety standards and fail to make required payments to the Workmen's Compensation Commissioner and the Unemployment Insurance Fund. The stresses and strains of contracting-out in the forest industry are returned to in our discussions of the impacts of certification (section 4) and company-community partnerships (section 5).

2.6 Summary

From a comparatively small beginning, South Africa's forest industry has grown rapidly through a number of distinctive but connected phases into an internationally significant industry of great importance to the national economy. The historical development of the industry reveals a number of key themes central to understanding the context of the industry and the role of private sector instruments in achieving better forestry. Three themes stand out: Firstly, the influential, but changing role of the state over time. The state has been central to the development of South Africa's forest industry. In response to a perceived national interest, the state filled the gap left when private investors were unwilling to develop plantation resources. Over time, as the private sector proved more willing and able to assume the role, the state has become a less significant player in relative terms. There is little doubt though that continuous support to the industry, either indirectly through subsided raw material prices, or more directly through the provision of investment incentives certainly enabled a fledgling industry to develop.

Secondly, there has been recent, but rapid, development of pulp and paper as a dynamic component of the industry. Thirdly, there has been a related rise in importance of international markets and international trends to South Africa's

industry. Over a very short period of time, South Africa has emerged as an international player. While not a large player in absolute terms, it is however relatively more dependent upon international markets than other larger producers, and is therefore more vulnerable to changes in prices and market sentiment.

Today, from South Africa's 1.5 million ha of plantations some 19 million m^3 of roundwood is produced each year, half of it pulpwood, making the country the 12th largest producer of pulp in the world. Sappi and Mondi – both global industry leaders in their respective paper product sectors – together own 47% of the plantations, the State owns 30%, smaller private enterprise and individuals own 22%, and the remaining 1% is shared by some 19,000 small or micro-growers. This high concentration reflects a process of vertical integration of the big companies, with the pulp and paper industry dominated by four main groups – Mondi, Sappi, Nampak and Kimberly – who produce 98% of the country's pulp, paper and board. The sawmilling industry is less concentrated although the five largest owners – Mondi, HansMerensky, Sappi, Safcol and Yorkcor (each with several mills) – account for 70% of total production (1.87 million m^3 per annum), whilst some 220 small-scale mills account for only 10% of sawlogs. The sawn timber market is likely to remain low growth.

Recent changes in legislation and policy, along with the general international trend to concentrate on core business, provide the incentive for companies to outsource the timber they process rather than to hold land and grow it themselves. Contracting out offers an important opportunity for greater participation in the industry, particularly by entrepreneurs from the previously disadvantaged community. However, poor conditions in the contracting industry are a concern, especially since this trend looks likely to increase.

Forest sector policy seeks to encourage the management of forests for the sustained yield of multiple goods and services for the benefit of multiple stakeholders. Macro policy in South Africa generally backs this up – putting a major emphasis on sustainable development and improving the lives and wealth creation opportunities for previously disadvantaged sections of society. Other key sectoral policy influences on forestry include water policy which will put increasing checks on the spread of plantation forestry, and challenges to such forestry as an appropriate land use in some existing plantation areas. Land reform policy, although rather slow to gather momentum, presents opportunities for new players and also presents some threats to existing plantation ownership through the land restitution process.

In conclusion, the next few years will bring a period of considerable change in private sector forestry in South Africa – with the big industry players increasingly focused on the imperatives of the global economy, while the newer, smaller players face stiff challenges and competition at home.

Privatisation of publicly owned forests

3.1 The context

The South African government has historically assumed a major role in the creation of forest resources through establishing plantations. As described in section 2, from the late 19th century onwards, initially in response to a policy of self-sufficiency, government established and managed a large plantation estate. Like other governments (Mayers and Bass, 1999), the South African government perceived itself responsible for creating such resources, in the national interest, when the private sector was unwilling to do so, given the cost, risk and length of investment required. The additional immediate benefits generated through employment creation and regional development, provided further justification for a role that remained essentially unchallenged for many years.

As also noted, South Africa's publicly owned plantations comprise two distinct elements. Firstly, the plantations of the former Republic of South Africa (RSA) established and managed by the former RSA's Forestry Department. Secondly, the plantations of the former Homelands. In combination, these plantations represent approximately 30% of South Africa's total plantation estate, and around 66% of the national softwood resource. Annually they produce around 2.4 million cubic metres of round wood equivalent to around 30% of total annual roundwood production, but around 60% of softwood roundwood. This output supports a significant value-adding processing industry.

From the 1980s onwards, and more importantly following the adoption of the radical new forest policy in 1996, South Africa has set about redefining the state's role in the forest sector. A key element of this redefinition is the state's withdrawal from commercial forestry operations and the transfer of this function to the private sector through privatisation. Plantation privatisation is not unique to South Africa by any means. The South African process is however amongst the largest exercises of its type attempted to date. It is also set against the backdrop of major changes in the forest and other sectors as the country seeks to realign its policies and institutions away from the inefficiencies, inequalities and distortions of the Apartheid era and towards a new paradigm. A paradigm in which much is expected of the private sector in serving society's needs. Although the task remains to be completed, many of its principles are well developed and much can be already learnt from the process.

This section considers South Africa's privatisation process with regard to three broad themes, namely:

● the rationale for privatisation – focusing on the anticipated benefits from increased private sector participation in the management of industrial plantations;

● the approach taken to privatisation – identifying any lessons which can be learnt from South Africa's experience; and,

● the use of different instruments to achieve a successful privatisation – emphasising the relative role of regulation and incentive in achieving privatisation objectives.

3.2 The rationale for increased private sector participation in plantation management

South Africa's new forest policy (Government of South Africa, 1996), calls for radical changes in the way forests are viewed, valued and managed. Central to this is a fundamental shift in the role of government away from managing forests itself and towards a new role of creating the conditions (policies) necessary for others to manage forests in the national interest and regulating their actions. This change acknowledges that the private sector, not government, is best placed to manage forests. Government's appropriate role is that of an authority, setting policy and regulating to ensure the sector's sustainable and beneficial development.

This policy change mirrors a wider national programme of economic reform and liberalisation in post-Apartheid South Africa. It is also in large part reflects a number of factors common to the worldwide trend towards plantation privatisation (Landell-Mills and Ford 1999), specifically:

● a belief that privatisation offers opportunities to attract investment and expertise needed to revitalise assets which often suffer from chronic under-investment;

● a fiscal imperative to reduce the burden of subsidising inefficient (relative to the private sector) government managed plantations; and,

● a recognition that continuing to undertake a commercial function potentially conflicts with the performance of government's regulatory role.

But further to these factors, the South African government was also aware that the manner, terms and conditions under which a large part of the national forest estate was transferred from public to private sector management provided an almost unique opportunity to influence the forest sector and address certain key policy objectives. These included the need to:

- Achieve a wider more representative pattern of ownership in the forest sector, particularly amongst South Africa's historically excluded groups.

- Consolidate forest resources often artificially split along former Homeland boundaries; a separation which resulted in inefficiencies and distortions in resource use to the detriment of the industry's rational development.

- Improve efficiency in processing industries by increasing effective competition for raw material supplies. South Africa's saw-milling industry has been characterised by long-term structural inefficiencies resulting in large part from the distorting influence of government as a major forest owner. Prices for logs from government plantations were for many years administratively determined, and set well below comparable international levels. Further to this, the resource was allocated through non-competitive long-term contracts that often prevented prospective industry entrants from obtaining access to raw material. Inefficiency was consequently sustained and almost institutionalised.

- Formally recognise the land, access and use rights of rural communities, many of whom were dispossessed of these rights when these plantations were established. Restitution of land, and the recognition of rights, are key issues in South Africa, which, as will be seen, have fundamentally shaped the approach to privatisation.

- In recognition of privatisation's role in achieving these objectives, it is often referred to as a 'restructuring' of government's plantation assets. A term which perhaps better conveys the fundamental changes envisaged: changes expected to achieve more than simply transferring a government function to the private sector, or realising a financial return from the sale of assets.

3.3 The approach to privatisation

Early moves towards privatisation – commercialisation and corporatisation of the former RSA's plantation assets

South Africa's new forest policy provides a clear impetus and direction to government's intention to divest itself of the plantation under its management. However, thinking around the process of privatisation predates this by a number of years.

From the late 1970s onwards, debate took place within the former RSA's Forestry Department about the merits of increased private sector participation in state owned plantations. Much of this reflected a wider discourse around the benefits of privatisation generally prevalent around that time, but the debate also drew upon the contemporary experience of New Zealand, then in the midst of its own plantation privatisation process.

Prior to the democratic elections of 1994 – and the consequent decision to combine RSA and former Homeland's assets described below – a route to

privatisation had been envisaged for the RSA's forest assets, which followed the model adopted in some other countries, entailing three distinct steps:

- *Commercialisation* – involving the adoption of private sector accounting practices and other working procedures while retaining the plantation operation within the formal public sector and under the mandate of the national forest authority.

- *Corporatisation* – involving the excision of the commercialised operation and its work force from the formal public service, and their transfer to a specially created, wholly state owned, company, i.e. the corporation.

- *Privatisation* – through the sale of shares in the corporation to the private sector.

This three-stage process represents a gradual transition from public sector efficiency levels to those of the private sector. It is intuitively attractive, as in principle it allows for inefficiencies to be removed without drastic or rapid change. It also gives government an opportunity to prepare the assets for sale, which should result in an improved sale price.

In South Africa this process began in 1983 with a Cabinet decision to appoint an Interdepartmental Committee to investigate the transfer of the state's commercial plantation activities to a Corporation. In 1985, commercialisation began with the RSA's Forestry Department adopting a 'trading account'. This entailed the introduction of commercial accounting systems and budgeting practices enabling the Department to identify timber income and production costs separately. The Department was also allowed to retain revenue rather than returning it to the national exchequer.

Formal steps towards corporatisation began in 1989 with the presentation by the then government of a draft bill on the creation of a National Forestry Corporation. Following consultation with the forest industry and significant preparatory work, legislation was introduced in 1992 to corporatise the RSA's plantation assets. In September of that year SAFCOL was incorporated as a public company and a board appointed. In 1993, agreements were reached between SAFCOL and government for the transfer of assets and staff. SAFCOL commenced commercial operations and set about establishing the processes necessary to sell off (either all or part) of the government's shareholding.

Post 1994 developments

Following South Africa's first democratic elections in 1994 the plantations of the former homelands returned to central government administration under DWAF. Much debate subsequently followed about whether in principle and in which way to combine the privatisation of these assets with the 'SAFCOL process'. After lengthy deliberation, in late 1998, government formally approved an approach to privatise all its plantation assets (both those managed by SAFCOL and DWAF) in a single process. This involved a phased approach

The rights and prospects of forestry workers have been major issues for the privatisation process

to privatisation entailing dividing all the plantations under its ownership into three general categories:

- The entire SAFCOL estate (386,476 ha) combined with distinct elements (amounting to about 70,000 hectares) of the former Homelands plantations so closely associated with particular SAFCOL assets to make their combination logical.

- The balance of the commercially viable plantations remaining under DWAF's management extending over approximately 70,000 hectares.

- Approximately 120 small scattered plantations, extending over 15,000 hectares producing material not generally sold under commercial contracts but extensively utilised by local people.

In terms of sequencing, it was decided to concentrate initially on the joint SAFCOL/DWAF assets and to complete this transaction before dealing with the remaining assets under DWAF's management. The combined SAFCOL/DWAF assets were divided into seven 'packages', each representing a logical business unit. Investors were then invited to bid for a 75% shareholding (of which at least 10% needed to be black owned) in any combination or all of seven specially created companies – 'Special Purpose Vehicles' (SPV) – one for each package established to facilitate the sale of assets through a sale of shares. Minority shareholdings in each SPV are held by government (10%); workers (9%) and the National Empowerment Fund (6%) in order to secure black institutional investment in the forest industry.

Table 10 Status of first batch of public forest assets offered to bidders, mid 2001

Package	Total Lease area (ha) – including grassland and natural forests	Total Planted area (ha)	Status mid 2001
Northern	32 354	18 826	Consolidated as one package. Three bidders shortlisted. About 11,000 ha likely to be withdrawn from the deal in the Sand River area – to be rehabilitated by the provincial parks board with view to link Blyth River Canyon and Kruger National Park
Mpumalanga	177018	120 256	
KwaZulu-Natal	43 946	32 652	22,000 ha to be transferred to consortium of Mondi and black empowerment company Imbokodvo Lemabalabala (consists of Khulanathi scheme small-growers and traditional authorities). 7,000 ha to remain with SAFCOL for 5 years then to be transferred to Greater St. Lucia Wetland Authority as part of World Heritage Site
Eastern Cape North	75 487	57 715	Transferred to Singisi Forest Products, a consortium of Hans Merensky Holdings, the Black Empowerment Trust and Singalanga Community Development Trust (comprising four bodies representing 164 communities)
Eastern Cape South	25 417	4 399 70 212	Negotiations ongoing in the contaxt of a commercial dispute between SAFCOL and the preferred bidder
Southern Cape	134 963		Both to be managed by SAFCOL over a 20-year exit plan. 45,000 ha will be designated for other land uses, including community forestry, commercial agriculture, tourism and housing (and 8,000 ha are available immediately for land use conversion). Where forestry is a preferred land use option, SAFCOL will continue to manage the plantations which should be subject to a privatisation process towards the end of the 20 years
Western Cape	26 949	17 766	
Total	514 134	331 826	

Source: DWAF and DTI 2001, pers.comm

Government also determined, for reasons outlined in greater detail below, that the land associated with the plantations should remain in public ownership. Investors were consequently not offered title to land, rather the use-rights to it through the mechanism of a long-term lease. This first batch of assets was placed on the market in March 1999 and government is currently negotiating the final details of each proposed bid (Table 10). Approximately half of government's commercially viable plantations were brought into this first batch. The balance of the state plantations were expected to be held back until around the beginning of 2002.

3.4 Emerging lessons

Although the process remains incomplete, a number of significant lessons have already emerged which are briefly described below.

3.4.1 Transaction governance – managing conflicts and context

In approaching privatisation, government was mindful of the need to set clear and definite objectives. It recognised that any uncertainty or contradiction in its objectives represented a risk for investors. As the private sector manages risk by discounting the price it offers for any asset, or by not bothering to invest at all, avoiding such uncertainty was clearly in government's interest. Furthermore, government appreciated that uncertainty in objectives – or their relative ranking – would make the evaluation of competing bids difficult and introduce greater subjectivity when different bids emphasised different perceptions of government's priorities.

Establishing and ranking privatisation objectives however involved two main difficulties. Firstly, that privatisation was expected to achieve multiple objectives which in some respects conflicted with each other, and so could not all be fully realised simultaneously. Secondly, that the range of feasible objectives was severely constrained by the realities of the context in which privatisation was set. What was desirable was sometimes not possible because of circumstances beyond government's control; circumstances which were often an inheritance of the Apartheid era.

Managing conflicting objectives

Conflicting objectives are a characteristic of most public policy processes. Making progress requires accepting that all objectives cannot be fully realised, and that compromises or trade-offs must be found with established agreed minimum levels of achievement. It is also important not to overburden a transaction with so many public policy objectives that it becomes unworkable or unattractive to investors. This would defeat the very purpose of privatisation.

Sale price, for example, could not be maximised as would be the case in a purely commercial sale, because the transaction was expected to address a number of policy issues. Managing these required investors to accept additional

risks, or to assume non-profit maximizing behaviour. Similarly, the need to attract strategic investors large enough to revitalise large areas of plantation and associated processing industries required the assets to be packaged in comparatively large bocks. This inevitably, to some extent, reduced opportunities for widening local ownership. The converse of this was however also true: maximising local ownership may not have achieved the scale of investment needed to recapitalise and revitalise moribund assets.

Achieving the consensus required to arrive at a feasible mix of objectives based on 'give and take' can be difficult in a complex process involving many parties. It involved several government departments; principally DWAF and DPE, but also the Department of Finance and the Department of Land Affairs; organised labour and forest managers. Each party quite understandably articulated different perspectives and objectives. This inevitably gave rise to tensions as each party sought to define what constituted a successful privatisation outcome from its perspective or for its constituency.

The structure and management of the transaction aimed to avoid undue bias towards any one privatisation objective in a manner reflecting the varying influence and strength of different stakeholders. For example, as in many countries, the ministry responsible for forests is somewhat less powerful and influential than those responsible for public finances and privatisation. In such a situation, a danger exists of objectives being set or decisions being made for short-term (fiscal) reasons to the detriment of other longer term considerations such as sustainable forest sector development. Much stress was put on ensuring that the voices of relatively weak stakeholders are as effectively articulated and represented as those of government, organised labour and management.

The evidence indicates that South Africa got the 'governance' and structure of the transaction about right through:

- A *representative forum*, established early, which enjoyed strong political support and was appropriately mandated to make effective, objective and balanced decisions.
- An *open market bidding-based* approach to the transaction (see below).
- A suite of *mutually supporting instruments* to achieve privatisation objectives (see below).
- The existence of *effective overarching legislation* (and strong sectoral departments) with which the privatisation process needed to comply.

Managing the context

No public policy process occurs in isolation of other policies, or has a clean slate with which to work; there is inevitably a context and history. Dealing with these 'givens', many a consequence of the peculiar history of the assets involved, and more generally of Apartheid South Africa, further complicated the transaction and severely curtailed the range of feasible options. In many

respects, the transaction was shaped by the necessity to deal with these issues, which could not simply be wished away. Key amongst them were:

- *Human resource issues*. The plantations, particularly those of the former Homelands were overstaffed at wage rates considerably higher than those prevailing in the private sector. Dealing with this issue, given the existence of a moratorium on retrenchment in the public service, occupied much time and required much negotiation. Ultimately it was managed through the identification of innovative solutions – within the bounds of employment legislation – and by passing on at least some of the problem to new investors to manage. This however came at a cost. Dealing with human resource issues reduced both the range of feasible options and the expected financial return.

- *Land issues*. As will be discussed below, land policy and legislation prevented the sale of land requiring the adoption of an approach based on leasing use-rights. This entailed a whole series of instruments and institutions to be introduced into the transaction and post transaction management arrangements.

- *Existing timber supply contracts*. The existence, over a large portion of the plantations under offer, of long-term timber supply contracts – often on less than commercial terms – entered into by the former administrations, severely constrained government's ability to offer potential investors immediate unencumbered rights to timber. This made the assets less commercially attractive.

3.4.2 Reconciling public and private sector objectives

Significant differences exist between public and private sector objectives in any privatisation. Government's objectives relate to addressing relevant public policy issues; realising some financial value and usually limiting any contingent liability upon itself. Private investors are generally concerned with acquiring assets on the most favourable commercial terms and ensuring freedom from future government intervention: intervention, which public policy objectives may require. Achieving a workable reconciliation requires a transaction capable of effectively balancing these conflicting aspirations. In this respect, privatisations are far more complicated than commercial transactions, which essentially relate to financial issues alone.

In South Africa, the competitive bidding process did not proscribe how investors should manage public policy issues, rather it invited them to use their initiative in responding to them. This required combining qualitative as well as quantitative considerations into a single set of prioritised bidding criteria. These criteria combined qualitative aspects, including commitments to future investment and opportunities for local participation and economic empowerment, along with a price consideration. Potential investors were then invited to compete against each other in response to these criteria by submitting proposals containing a detailed business plan and an offer price. These proposals were then evaluated against government's objectives and each other so allowing the identification of a preferred investor.

This approach represented an efficient market based means of striking a balance between public and private sector objectives. Making it work however, required two things. Firstly, for government to be clear about its objectives and to communicate these to potential investors in a manner to which they could effectively respond, i.e. a set of clear weighted bidding criteria. It is worth noting in passing that combining qualitative and quantitative criteria did make bid evaluation more complex, certainly compared to a simple financial comparison. Furthermore, no matter how genuine the commitment to identify the 'best' bid in terms of its comprehensive response to all objectives, price inevitably assumes a special importance. This is not surprising. Price is by far the easiest criteria to compare between bids and the most visible and publicly understood measure by which to judge any transaction's success.

Secondly, government needed to accept that the transaction entailed a number of public policy risks, which investors manage, as they do with all risk, by discounting the price they are prepared to pay. These risks included uncertainty around:

- the impact of land and tenure reform processes on long-term land based investments;
- future minimum standards for sustainable forest management currently being developed under national forest legislation; and,
- the impact of future water resource legislation. This may require plantation managers to pay for the water consumed by trees, or for trees to be removed in stressed water catchments.

Generally investors understand commercial risks (price and market fluctuations etc) and can make an informed assessment of their importance and manage them accordingly. They are far less familiar and certainly less comfortable with public policy risk, which they consequently discount for heavily. In South Africa, the government soon learnt that the value it was likely to realise at market would – when consideration was taken of public policy risks being transferred to the buyer – fall far short of initial expectations based solely on the value of the assets. The discount factor for public policy risk is high. This is not immediately apparent to the wider public, which as noted above, often judges a transaction's success in terms of the realised market price.

3.4.3 Importance of secure use rights relative to the need to transfer property rights

Early in the privatisation process a decision was taken not to sell the land associated with the plantations, but to retain it in public ownership. This decision reflected the need to comply with land and tenure reform policies, and a broader public interest perspective, which called for continued public ownership of land. Both issues are considered below.

Land and tenure reform context

In South Africa the state established plantations on land falling into two distinct types. Firstly, publicly owned land in the former RSA, which, in some cases, was

acquired by forced removal or other discriminatory practise. Secondly, land in the former Homelands where, as a result of racially inspired legislation (primarily the 1913 Black Land Act and the 1936 Trust Act), land rights were systematically removed from customary owners and placed in trust of the state.

The new land legislation (see section 2.5.3) effectively prohibits government from selling land associated with the plantations it wished to privatise. Resolving this potential impasse therefore required government to focus on ways of transferring use rights to the private sector rather than property rights: rights it is not in a legal position to offer. This was achieved through the mechanism of long-term leases to be entered into by the state, acting in trust of any possible successful land claimant. These leases provide for the transfer of title to a successful land claimant, and their right to withdraw from the lease should they wish. They also attract an annual market determined rent, passed on to an individual or community with a verified land claim, or held in trust by government pending a successful claim.

Other perceived benefits from retaining land in public ownership

While legal and tenure considerations required the state to retain land in public ownership, the decision was also seen as offering other advantages. Specifically, it provides some comfort to concerns that the transfer of forest management from the public to the private sector could compromise standards of sustainable forest management and reduce access to forest goods and services; rights in addition to the land ownership rights considered above. These are important considerations for South Africans where, as elsewhere, concerns exist about the private sector's willingness and ability to manage the environmental and social values of forests (Landell-Mills and Ford, 1999).

In this context, the lease is seen as a key instrument in ensuring that the transfer of management to the private sector does not result in:

- asset stripping or management for short term financial gain;
- poor environmental management;
- single purpose management, i.e. the maximisation of commercial fibre production to the detriment of the production of other forest goods and services; and,
- a diminution of third party rights to forests goods and services.

The key role of leasing in privatisation – some criteria for success

Leasing has consequently emerged as a key instrument in the privatisation of South Africa's state owned plantations. It provides a practical means through which government can transfer use rights to the private sector while upholding and protecting land rights. It also provides the potential means of ensuring that the wider perceived benefits of retaining land in public ownership are effectively realised.

The success of leasing in performing these functions fundamentally lies in the authorities' ability to:

- Achieve a workable balance between incentive and regulation sufficient to encourage private sector forest managers to make long-term investment commitments and practice sustainable management. That is, to provide sufficiently secure and attractive use rights to potential investors on land they will never own.

- Identify and employ a balanced combination of instruments, including the lease, the terms of the sale and the law to achieve privatisation objectives.

- Ensure that third party rights to forest goods and services are not compromised with the transfer of use rights to the private sector.

3.4.4 Complexities of forest privatisations relative to transaction costs and financial value

Forestry privatisations are difficult and complicated. They involve managing a range of complex public policy issues, such as ensuring sustainable forest management and post transaction regulation, in addition to the more 'normal' transaction issues associated with any public offering of a government owned asset.

This complexity also means that the transaction's costs – not least in terms of the time required of officials in key ministries – are high relative to the likely realisable sale price. When compared against the much greater financial value of other larger privatisations often occurring at the same time, these costs may appear disproportionately high. In such a situation, forest privatisations will always be competing for the time and attention of busy officials. In such circumstances, the danger exists of an expeditious route to forest privatisation being adopted, possibly compromising certain longer term and more difficult issues in order to arrive at a conclusion. Unfortunately given the long term nature of forestry, problems avoided are not problems solved and they will likely resurface in the future.

Competition for time and attention was certainly a characteristic of South Africa's plantation privatisation. Similarly transaction costs were high relative to realisable value. However, Government did realise that privatisation's success should be measured not solely on price contributed to its relative importance being acknowledged and reasonably sufficient resources being allocated to it.

Privatisation is based on the belief that the private sector, not government, is best placed to manage South African plantations

3.5 The balanced use of instruments to achieve privatisation objectives

3.5.1 The range of available instruments

In terms of achieving its short and long term privatisation objectives government had three main instruments at its disposal, namely the transaction itself, the lease and the existing legislative framework. These three instruments were used in a mutually supportive manner with a clear hierarchy between them. This ensured that: a balance was maintained between different objectives and interests; the needs of the long term were not lost in pursuit of immediate gains; and, the relative roles and responsibilities – particularly those of the new private sector managers and government – were unambiguously clear from the start of the process.

With respect to the transaction, this ultimately defined how much the investor paid for the standing forest, other fixed improvements to the land (roads, infrastructures and processing facilities), and the use rights provided through the lease. It also determined the way the investor dealt with a number of immediate to medium term objectives. These included commitments relating to investment in the forests and associated processing industries; the economic empowerment of previously disadvantaged groups and the management of human resources issues.

In contrast the lease solely governs the relationship between the lessee and the lessor for the use of the land. While acknowledging the importance of issues

relating to employment and investment etc. to the overall success of privatisation, ensuring they are met is not seen as a function of the lease. Such issues are more properly the function of the transaction and the subject of bidding and negotiation. Maintaining this separation is important in two respects.

Firstly, it allows the lease to remain an effective and focused instrument, dealing only with those issues for which it is the most appropriate instrument. There is a great danger in attempting to over-load the lease with responsibility to deliver against a number of objectives for which it is not well suited. This could well result in compromising its usefulness in those areas for which it is the prime instrument.

Secondly, lease terms are essentially fixed so they are not (with the exception of rental payments) an area for negotiation. This helps to guarantee that the basic conditions or principles governing the management of land and forests cannot be negotiated away, or somehow traded off against other more immediate and pressing shorter term objectives. This is very important in establishing the lease as an enduring instrument, rather than a short term negotiating tool. This however does not deny the importance of the lease in achieving those other objectives through the incentive of secure use-rights (see below).

In terms of legislation, a central element of the 1998 National Forests Act (NFA) is the development of a set of minimum standards, based on a system of criteria and indicators for sustainable forest management. The relationship between the lease and the NFA is absolutely clear: in all respects the lease is subordinate to the law. This has two important consequences.

Firstly, the lease does not provide exemption from legislation, including that relating to forestry practise, environmental management, land and tenure reform or labour etc. Similarly, the lease cannot infringe upon rights, responsibilities or obligations contained either within the Constitution, or other legislation. Compliance with these is a condition precedent of the lease. Secondly, the lease is not a piece of legislation. It is 'simply' a contract governing the use of the land developed within the ambit of the prevailing legal framework. While it stipulates the way in which that land can be used and the standards by which it must be managed, it is not a means of regulating the forest sector. This is important in terms of avoiding the creation of two regulatory standards: one for forests on private land and the other for forests on public land.

3.5.2 The relative roles of incentive and regulation in achieving privatisation objectives

The fear often exists that the private sector will adopt a short term view, take what it can and give little. That it will play an extractive rather than a developmental role to the detriment of the forests and the nation. While there is no a priori reason to assume that public sector management will be better than that of the private sector, a tension can emerge between public and private interests when the costs of managing forests sustainably are borne by the

private sector. Managing this tension effectively requires a reasonable balance of incentive and proscription through the use of the instruments available to government. Incentives in the South African privatisation are essentially provided by the terms of the lease. Regulation is partly provided by certain requirements of the lease, but also through more general legislation, most notably the NFA.

Incentives to sound management – the importance of secure and tradable use rights

The lease approaches this issue from the perspective that while some conditions can be imposed these can realistically only ever be minimum standards. Performance above minimum standards is most likely to be realised by providing incentives to investors to act in a desirable way. The key in this respect is to provide secure and tradable use rights through the lease. Few will rationally invest in a long-term activity, such as forestry, without some belief that they will realise a proportionate benefit from that investment and the risk taken. Conversely, when investors are confident of being able to enjoy the benefits of their acumen, enterprise and risk taking, the more likely they are to act in the wider public interest by investing in the productive and sustainable management of the forest itself and value-adding processing. This security is provided through four key provisions of the lease, namely those relating to:

- duration;
- the right to assign, sublet and mortgage use rights;
- the management of a change in underlying land ownership as a result of land reform processes; and,
- return of the land at the normal expiry of the lease.

In terms of duration, investors needed to be sure of a long enough period to recoup their investment and government adopted the principle that if a tenant behaves reasonably then why terminate the lease. After consideration, a lease of indefinite duration, but providing for 35 years notice of termination by either party at any point after the lease's 35th anniversary, was adopted. This effectively provides a guaranteed minimum tenure of 70 years on entering the lease. Provision for early termination in the event of a material and unremedied breach of lease conditions remains and rentals are reviewed periodically.

To many, this appears an unusually long lease. The merit of long leases (or concessions in the case of natural forest harvesting) is often a difficult principle to accept, particularly where concerns exists about the private sector's willingness to act in a sustainable and responsible manner. In such contexts, a tendency exists to limit the duration of use rights. In a sense while the lease's duration is the issue under consideration, the salient matter is the authority's ability and confidence to deal with breaches of the lease's terms or the law. In South Africa, the adoption of an indefinite lease reflected confidence in the lease, the regulatory framework and the authorities' ability to employ these instruments effectively.

The right to assign, by allowing the lease-holder the opportunity to transfer the lease (in whole or in part) to another party, makes use-rights tradable. An assignable lease has a financial value best protected by practising sound management of the forest. This is a major incentive to manage sustainably. In contrast, where assignment is prohibited the lease has no intrinsic value to the holder (other than providing access to the resource), and the incentive to sound management provided by the possibility of realising a value through the transfer of use-rights to another party is lost. Assignment of course carries risks: primarily that use-rights may be assigned either to realise a quick profit, or to a party which did not obtain them through the initial competitive process. Both of these concerns can however be mitigated by requiring approval to any assignment. All these aspects were considered in South Africa and it was decided to allow assignment (in part or whole) after the first five years, provided the lease-holder obtains government's prior approval (which cannot be unreasonably withheld) and is not in default of any lease obligations. The lease also permits sub-letting under broadly similar conditions and grants lease holders the right (again with permission) to raise finance using the lease as security through a mortgage. Both of these add to the lease's financial value making it a valuable asset for the investor.

In the context of a national programme of land restitution, the possibility exists of a successful land claim to the land to which use rights have been granted. This represents a definite risk to the lease-holder investing over the long term. The management of this possibility in a way which provides adequate security to the lease-holder, but which can accommodate for a successful claim, was also given consideration in the lease. Should a land claim be upheld by the Land Claim Commission, the successful claimant can be offered one of three options by the Commission, either:

- return of the land and title with or without the lease according to the Commission's discretion;
- the provision of alternative land (at government's cost); or,
- the provision of suitable compensation (again at government's cost).

If the Commission approves the first option, then the lease provides security to the lease holder in terms of both possible treatments of the in-situ lease. Should the Commission require the land to be returned to the claimant free of the lease, government undertakes to pay the tenant appropriate compensation. If, on the other hand, the Commission binds the successful claimant to the lease, then the claimant will be obliged to lease the land to the tenant, but with government acting as the claimant's agent. In this latter instance, the government indemnifies the tenant against damages resulting from unlawful activities by the successful claimant, e.g. not upholding the conditions of lease.

Finally, through its provisions governing the management of the lease's normal expiry, the lease provides incentive to ensure that the land is managed well until the very end of the lease. As noted, either party can issue notice of termination.

During this notice period – irrespective of which party invoked it – the lease obliges the tenant to manage the leased land according to the land owners' wishes regarding the condition in which it should be returned, i.e. afforested or not afforested. The lease further obliges the land owner to convey these wishes to the lease holder within six months of that notice being given. If the land owner wishes the land (in whole or in part) to be returned afforested, then the lease obliges the land owner to pay the tenant the fair market value of the standing timber on the lease's expiry. In addition, the lease holder remains entitled to the income earned through harvesting and selling timber at maturity throughout the notice period. If the land owners does not wish the land, or any portion of it, to be returned afforested, then the land owner must state within six months in what 'lesser state' it requires the land to be returned. In this regard, the land owner will not be entitled to withhold consent to any change in land use on those areas not to be re-afforested. These are important conditions. Without the security of market related compensation at the end of the lease, no manager will willingly make the investments necessary to ensure that the forest remains in full and productive rotation. If anything, in such a situation, there will be an incentive to minimise investment and maximise profit-taking to the long term detriment of the forests. It should however be noted that these provisions are very different to those applying in the event of a revocation of the lease through non-compliance. In such an event no compensation is provided.

Management standards and certification

The lease gives clear emphasis to creating an incentive structure conducive to sound management. It was however widely believed that this needed to be supported by regulations requiring minimum management standards. In determining what these should be and how they should be monitored two main factors were considered. Firstly, the need to strike a balance between achieving good management and maintaining an 'arms length' relationship with investors necessary to allow them to go about their business in an unfettered manner. Secondly, the need to introduce a system and procedures for monitoring and enforcing minimum standards, which is effective, but also practical and cost effective to implement.

Consideration of these factors ruled out introducing a requirement for the preparation and approval of detailed management plans. This would impinge upon the lease holder's actions and would, in any event, be costly and difficult to enforce. An alternative and innovative approach was adopted instead. Namely to require the lease holder to obtain certification from a body approved by government within two years of the lease starting.

The attainment of certification will require compliance with national minimum standards. These are currently being prepared and will be applied to all forests (public and privately owned) as part of generally applicable forest legislation. Government can therefore be confident that its own minimum standards will be met on leased forest land and that the principle of one regulatory system (for freehold land and land leased from government) has been maintained.

The plantation privatisation process has kick-started some business initiatives in tree planting and better forest management with fair returns for local people

Management standards on leased land will 'only' be exceeded to the extent that the certifying body's standards go beyond government's own regulations. This approach has the following advantages:

- *Cost effective.* It removes from government the direct responsibility and cost of monitoring performance in the field. These are effectively passed on to the lease holder.

- *Well understood.* Certification is now a well-practiced process, both in South Africa and internationally. Many local operators are either already certified or actively seeking certification. The requirements (and costs) of achieving certification were therefore known to prospective lease-holders. This was particularly important in the absence of defined national minimum standards.

- *Value-adding.* Certification will increase the value of the lease as a tradable asset, so adding a further incentive to the achievement of sound management.

The ultimate success of this approach is clearly dependent upon the performance of certification in practise. Certification remains a new and largely unproven instrument with many questions remaining about its ability to achieve

better forest management (see section 4). The issue here though is not so much about certification as an instrument in itself, but rather about the ability of the certifying body to monitor compliance with national minimum standards. Anything which certification achieves beyond that is a bonus to government.

Paradoxically the privatisation process itself has identified a major concern with previous certification assessments. Through the process of developing the leases, and of bidders examining the forest blocks, some large tracts of forest, which had previously gained certification, were found to be situated in areas clearly unsuitable for forestry. These included 30,000 hectares in the Southern Cape, 15,000 hectares in the Western Cape and 12,000 hectares in the St Lucia World Heritage site area. These areas are now to be taken out of plantation forestry and will revert to conservation or other more appropriate land uses.

The identification of inappropriately forested areas through the privatisation process is largely due to the fact that prospective private sector management of these plantations brings with it greater external scrutiny for thorough risk assessments from potential private sector bidders. The process has shown that the private sector is cautious about accepting plantations that are inappropriately situated and managed. This is a net gain for the prospects of sustainable forest management.

Protecting third party rights

Third party rights to the leased forests exist in addition to the underlying land rights described above. These include access and use rights, with many individuals accessing the forest for a range of reasons and activities including: the collection of fuel, water, food, medicinal plants and other non timber forest products, spiritual and cultural reasons.

These rights have been practised for many years while the forests were under state management. Some are formally recognised, for example through the granting of licences or permits, but many are not. In debate around the privatisation process, concerns were raised that the transfer of management to the private sector could result in the loss, or partial removal of these rights. In the case of both access and use rights, third party security is guaranteed through the NFA, the provisions of which still apply to leased forests since they remain 'State Forests'.

Access rights are secured through Section 19 of the NFA. This requires forest operators to provide access for reasons such as the visiting of graves or sites of spiritual significance. In terms of use rights, these are in principle licensable activities covered under Section 23 of the NFA and transferred to the lease holder, who then has the discretion to licence third parties. In terms of the NFA, these licences cannot be unreasonably withheld. Neighbouring communities are in any event exempted under the Act from the need to obtain a licence for certain licensable activities, provided the products collected are used for domestic rather than commercial use.

In summary, as the legal requirements of the NFA are in no way reduced or diluted by the process of leasing, third party access and use rights should remain unaffected.

3.6 Summary

The state in South Africa assumed a major role in establishing forest plantations. Post-1994 policies however, call for radical changes in the way forests are managed to achieve national goals. A key element of this redefinition is the state's withdrawal from commercial forestry operations and the transfer of this function to the private sector. Sale of the land associated with these forests is however difficult given the requirements of the national land reform programme. In addition, concerns exist regarding the consequences of transferring full land title. A policy decision was therefore taken not to sell state forest land, but to offer use rights to it through the mechanism of the long-term lease.

Leasing is based in the belief that the transfer of ownership rights is not necessary for a resource to be well managed if use rights are sufficiently secure, and a recognition that incentives – specifically secure and tradable use – are more likely to achieve privatisation objectives and sustainable management than regulations alone. In addition to the lease the government had two other main instruments of privatisation at its disposal: Firstly the transaction itself, embracing the initial statement of weighted bidding criteria reflecting government's priorities, the investors' competitive responses to those criteria and the final negotiated terms of the sale between government and the preferred bidder. Secondly, the existing legislative framework, defining obligations in respect of forest management, land issues and labour relations.

The process of plantation privatisation in South Africa remains to be completed, such that any objective assessment of its success will only be possible in the future. Only then can a judgement be made about the extent to which the instruments employed – the transaction, the lease and the existing legislative framework – achieved government's objectives and whether the rationale for transferring responsibility to the private sector was justified. Nevertheless, the process followed to date has stimulated significant thinking around the principles and concepts of privatisation.

More fundamentally perhaps, it has also encouraged thinking about ways of making or encouraging the private sector to work to achieve better forest management in the national interest. This represents a fundamental change in government's perspective of the role and the motivations of the private sector. This changed philosophy recognises that government and private sector need not be adversaries, provided the instruments to ensure sound private sector management of forests which balance public as well as private sector interests are put in place. Key in this regard is a recognition that incentives to best practise are central to achieving sound private sector forestry.

Impacts of forest certification in South Africa

Certification has spread rapidly in the South African forestry sector over the last few years. This section looks at the motivations behind the spread of certification, describes how companies have implemented the two main systems used, and assesses its impacts - on forest management, company practice, markets, stakeholders and policy.

4.1 Introducing certification, and its status in South Africa

Forest management certification is a relatively new, but fast-growing, procedure. A third party inspector (the certifier) gives a written assurance that the quality of forest management practised by a defined producer conforms to specific standards. It is conceived as a voluntary procedure, which buyers may choose to specify, and which producers may choose to employ. By providing information about the origins of a traded forest product, certification attempts to link market demands for products produced to high environmental standards with producers who can meet such demands. As such, it has the potential to act as a market incentive for better forest management. Forest certification has evolved since 1989, and is part of a general world-wide trend to define and monitor standards for environmental and social improvements in natural resource use.

> "Since certification came we have all become greenies – now I watch the Discovery channel!"
>
> mill owner, Weza

The three main approaches to forest certification are:

- *The Forest Stewardship Council (FSC) approach*: this is currently the only established international system of forest management certification. The FSC was established precisely for the purpose of forest certification to promote high performance standards. The approach offers a global set of Principles and Criteria (P&C) for good forest stewardship; an international accreditation programme for certifiers; and a trademark which can be used in labelling products from certified forests. 'Chain of custody' also certifies the route of products from the forest through the processing chain and verifies that the product is indeed from a certified forest. The FSC also runs a communication/ advocacy programme. At present the FSC-accredited

schemes are dominant, and in South Africa the FSC system accounts for all forests and products certified to date.

- *The International Organisation for Standardisation (ISO):* offers a framework for certification of environmental management systems (EMSs) through its ISO 14000 series. This covers similar ground to forest management certification except that it does not specify forest management performance standards, and does not confer a label on products, severely limiting how products can be promoted in the market. It certifies the EMS rather than the forest. In some instances, companies are having their EMS certified in preparation for forest performance certification under FSC or a national scheme. In South Africa most of the corporate plantation companies have adopted ISO 14001 and some have been certified.

- *National certification programmes:* some are developed under the aegis and following the procedures of the FSC. But others are independent e.g. in Indonesia, Malaysia, Finland, Norway, Canada and an emerging approach in Ghana. Many of these combine elements of the FSC performance-based approach and the ISO process-based approach. There is no national certification programme in South Africa yet, although the South African Bureau of Standards have made a submission to the FSC to consider a certification scheme specific to the sub-region's needs. Furthermore, national principles, criteria, indicators and standards are being developed to which forest management must conform to be certified (see below).

By July 2001, twelve FSC forest management certificates had been issued in South Africa, covering about 830,808 ha of plantation. This represents 3.5% of the world total of FSC certified forest (24 million ha) and ranks South Africa seventh after Sweden, Poland, USA, UK, Bolivia and Brazil in terms of total area certified (FSC, 2001). In terms of purely *plantation* forestry, however, South Africa has the largest area of certified plantations of any country.

SAFCOL and Mondi have had their entire forest operations certified (except for Mondi's North Eastern Cape planting of 35,000 ha which will be certified in 2002 when it comes into rotation) and Sappi has certified its saw log plantations. The other certificates cover relatively small private areas of pine and wattle, which are primarily used for charcoal production, and the 1999 addition of Natal Cooperative Timbers (NCT) group scheme for private timber growers with middle-sized holdings (average about 120 ha each) and small-scale growers (average about 1-3 ha each). Table 11 summarises the figures. In addition to the forest management certificates, 30 FSC chain of custody certificates are held by South African companies, 15% of the global total in 2001.

Sappi was the first company in Africa to be certified under ISO 14001. The company currently has all its forestry operations and two of its mills certified and is planning to certify the remaining mills. All Mondi's divisions, except the forest division, have ISO 14001 certification and the forestry division has been using aspects of it in the development of its environmental management system. SAFCOL are in the process of implementing ISO 14001.

Table 11 Certified plantations in South Africa

Enterprise (and main species involved)	Type of certification	Area certified
African Charcoal (AFCHAR) (wattle and casuarina)	FSC Group scheme	1,458 ha
Bracken Timbers (pine and wattle)	FSC Industrial plantation	4,500 ha
Hans Merensky Holdings (Pty)	Private plantation	940 ha
Mondi Forests – Lowveld, Komati, Piet Retief, Natal and Zululand (pine and eucalyptus)	FSC Industrial plantation	431,301 ha
NCT Forestry Co-operative Ltd. (wattle, pine and eucalyptus)	FSC Group scheme	71,000 ha
SAFCOL – Eastern Cape, Kwazulu-Natal, Mpumalanga and Western Cape Regions (pine and eucalyptus)	FSC Industrial plantation	271,362 ha
Tropical Charcoal (pine, wattle and eucalyptus)	FSC Communal plantation	1,740 ha
Sappi Forest Products (pine and eucalyptus)	FSC Industrial plantation	48,507 ha
Sappi Forests	ISO 14001	500 000 ha
Total		**1,330,808 ha**

Sources: FSC 2001, Sappi Forests 1999, Ham 1999, McCartney 2001 pers. comm.

NCT is providing its members a group certification management system. By late 1999 some 33 farms had joined and 14 of the larger of these farms had passed certification assessment. Middle-sized private growers and small-scale growers are also included in the objectives and targets of Sappi's ISO 14001 certification. The company estimates that certification for the former will be achieved by the end of 2002, while the latter will take longer and will involve an audit system involving checks on perhaps 10% of the 2,500 growers. Mondi has begun taking steps to bring the small-growers in the Khulanathi scheme within the company's FSC certification.

DWAF is supportive of both national and international standards for sustainable forest management, including certification to international standards. Certification against national standards is now mandatory within two years of commencement of a forest management lease on government land. These national standards for sustainable forest management – required under

the 1998 National Forests Act – are being developed through a process involving various working groups coordinated by a sub-committee of the National Forestry Advisory Council. They are expected to be completed by August 2002, and to be enshrined in law thereafter.

4.2 Motivation for certification

FSC certification in South Africa, was prompted by requests for certified products from B&Q – a leading UK-based retailer of low cost Do-It-Yourself (DIY) and household products. B&Q, through its South African agent Alpine Trading, is an important customer amongst DIY product exporters, offering high volume (although relatively low price) orders for pine products. B&Q made it clear that by the year 2000 it would source only from FSC certified suppliers. The suppliers were generally prepared to get FSC chain of custody certification if this ensured continued access to a lucrative distribution channel and were also hopeful that certification would give them the opportunity to increase their sales to B&Q and other major UK retailers.

The DIY market is highly competitive, in addition to potentially differentiating themselves from local competitors, South Africa manufacturers were also increasingly aware of competition from Brazil and Poland. The pressure to become FSC certified intensified considerably once significant volumes of certified pine products became available from Poland.

Exporting companies then had to convince their suppliers – the sawmills and their parent companies – that they should be FSC certified. This took some time since there was both confusion and resistance. In direct commercial terms Sappi and Mondi could afford to ignore the demands since the sawn timber business is becoming less attractive and they are focusing their efforts on paper production, where interest in certification has been much lower. Even within the sawn timber divisions of these companies, wood for value-added timber products manufacturing is a very small part of the business and the relationship between manufacturers and the mills is often problematic for this very reason.

Certification's biggest surge followed the decision of Mondi's single biggest sawn timber customer to go for FSC certification. But decisions by the major timber companies to be certified were not solely the result of market pressure. There were a number of other business and reputational reasons why the timber companies took the decision to go for international certification:

● *Demonstrating environmental commitment.* Some companies were very supportive of the aims of FSC and certification as a proactive means for demonstrating their environmental credentials.

● *Improving internal systems and efficiency.* Sappi's environment department was looking for the means to provide the discipline required to cope with a changing legislative framework and national and international expectations,

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As certain markets demand certified forest products, timber mills like this are opting for chain of custody certification to prove that their products are indeed from certified forests

and to gain management commitment. ISO 14000 fitted the bill since its continuous improvement ethos allows uptake by a company, whatever its existing management level, and its familiar management system framework made it easy to sell to senior management.

- *Staying ahead of the game.* In addition to the 'first mover' advantages in the export market mentioned above, firms had local reasons for forward planning. Mondi, for example, sought to develop rigorous systems that would have less difficulty meeting forthcoming domestic legislation.

- *Dealing with supply chain pressure.* Although Sappi, with its core business in paper, was unconvinced of the need for FSC – and has been a critic of the design and implementation of FSC (objecting to the fact that FSC accredits the certifiers and preferring to meet national standards) – the company felt that adopting ISO 14000 would help it certify to FSC standards quickly if the market required it. Indeed, the pressure from furniture manufacturers on their sawn timber milling operations has been so great that the decision was finally made to certify this side of Sappi operations to FSC.

- *Responding to environmental and social criticism.* The private forestry sector had faced considerable criticism from local NGOs and had been looking for a way of demonstrating their environmental credentials for a number of years. Social concerns had also surfaced more strongly on the company agenda – helped to the fore by CBOs, labour organisations and 'social' consultants. SAFCOL in particular was motivated by the need to respond to such criticisms. It was only once certification was underway that SAFCOL began to receive requests from buyers for certified timber.

- *Shining up the silver for sale – preparing for privatisation.* Another potential motivation for SAFCOL's certification according to some industry commentators was to increase their attractiveness to private investors – since it had been known for some years that privatisation was in the offing. The conclusion of the very recent Mondi-GEF joint venture was assisted considerably by Mondi's FSC certificate.

- *Anticipating certification becoming an industry standard.* As awareness about FSC spread, many manufacturers felt that they might find themselves unable to supply European export markets unless they could supply FSC products. As one exporter put it: *"We got certified to maintain our supply position down the line"* illustrating how certification had rapidly moved from a means of differentiation to a condition of doing business.

- *Complying with increasing investor scrutiny.* International expansion of the major forestry firms has, for some, brought higher expectations of company disclosure and to demonstration of internationally recognised standards. For example, the London listing of Anglo America, Mondi's parent company, has introduced stronger pressure from shareholders and more stringent reporting and disclosure requirements. In the near future, Mondi anticipates

responding to this pressure for better information, evidence of continual improvement, and indicators of safety, health, environmental protection and social responsibility.

4.3 The practice of certification in South Africa

Certification in South Africa follows the general format becoming established worldwide. At the request of the forest enterprise, the third party certifier conducts a *pre-assessment* which provides information on how ready the forest owner is for certification, and the likely problem areas. If ready, an *independent audit* of forest management quality, in a specified forest area, under one management regime, against specified environmental, social and economic standards, is then carried out. This is done by a team of 2-5 auditors, depending on the size and complexity of the audit, who assess documents which prescribe and record management, together with checks in the forest, followed by peer review of the assessment. The result is a certificate for a period; and/or a schedule of improvements ('corrective action requests' or CARs).

A *checklist* is used, developed by auditors to be used in all their assessments in a country, and agreed with the companies. Checklists of what is required have to date been much more precise on environmental than social issues. A full assessment is carried out every five years. *Surveillance audits* are carried out every six months, usually by one auditor. These audits aim to look at parts of the forest which have not been previously checked and provide the regular checks required to maintain the certificate. Until recently all pre-assessment, assessment and surveillance processes in South Africa have been carried out by staff and consultants of the FSC accredited certifier SGS Forestry through its Qualifor Programme. The South African Bureau of Standards (SABS) gained FSC accreditation to award Chain of Custody certificates in 2000, which introduces some competition into the game, and SABS is awaiting acceptance from FSC for its forest certification programme.

The skills of the *audit team* are critical. In theory, any team of competent auditors would come up with the same results. In practice, much depends on the composition of the team. Because the South African forestry scene is fairly small, private consultants have almost invariably worked for forestry companies before. The familiarity with company practice which this brings allows auditors to 'hit the ground running' but potentially compromises objectivity. Sometimes the same auditors have worked together and carried out assessments and surveillance visits of the same company. The recent establishment of an SGS office in Johannesburg enables a local auditor to lead on most assessments which increases consistency. However, there are also advantages in bringing in new team members with fresh insights and a focus on different issues – although this can lead to different interpretations of what is most important. Inexperienced auditors are usually much less confident about raising CARs and taking a firm stand in the face of opposition from the company. To date, specialist team members have not been required to have any training prior to carrying out FSC audits – they are expected to learn on the job.

Stakeholder consultation is a vital – yet generally weak - part of the process. The company produces a list of their stakeholders – which the assessors then augment. Information and a questionnaire in English are sent through to these stakeholders, usually by fax. To date this has been almost identical for every assessment. Lack of response is assumed to mean no concern about forest management in the area. Some leads are followed up with phone calls or meetings, sometimes set up by the companies themselves, but personal visits are costly, time-consuming and therefore rare.

The key outcomes of the audit *decision-making* process are CARs. Issues that could lead to CARs are discussed with the company during the audit – so that the team understands the company approach and the company is aware of the issues that are being followed up. Major CARs are raised where the weight of evidence shows consistent or very serious neglect of an important criterion or company standard. Technical forestry and environmental CARs are quite common, and major social CARs are also being issued (in one company's case, more major social CARs were recently issued than technical ones). Social issues are harder to pin down – it is often difficult to gather the objective evidence in support of suspected failure – and are open to different interpretation since mutually accepted and commonly understood operating guidelines are not clearly specified.

Since the purpose of *chain of custody* certification is to ensure that a certified product can be traced back to the its original timber source, it is essentially a straightforward 'book-keeping system'. If firms are only buying timber from certified sources then chain of custody is simple. If firms are using both certified and non-certified wood then they have to demonstrate that they are not mixing these during production. This can complicate operations and scheduling. But a number of firms have chosen to run a dual system in order to ensure operational flexibility – in particular, to accommodate sub-contractors using uncertified timber or because they need particular dimensions which are only produced by the small, independent 'bushmills', which have not by and large sought certification.

4.4 Spread of certification through the supply chain

Once the key mills supplying sawn timber to South African manufacturers were certified (see section 4.2), the chain of custody certification process became much simpler for manufacturers, and a second round of certification amongst manufacturers, many of whom were *not* B&Q suppliers, ensued. Some of these manufacturers supplied B&Q's competitors in the UK, who themselves were coming under pressure to source FSC products. South African companies began to receive requests for FSC from a number of other buyers, including Homebase, Wicks, Great Mills and Metpost in the UK, Bauhaus in Germany and Home Depot in the USA. At the same time, certified sawmills began to promote FSC and encourage their customers to get chain of custody certification.

The way in which pressure for certification spread through the supply chain is represented in Figure 8.

Figure 8 The spread of FSC certification in South Africa
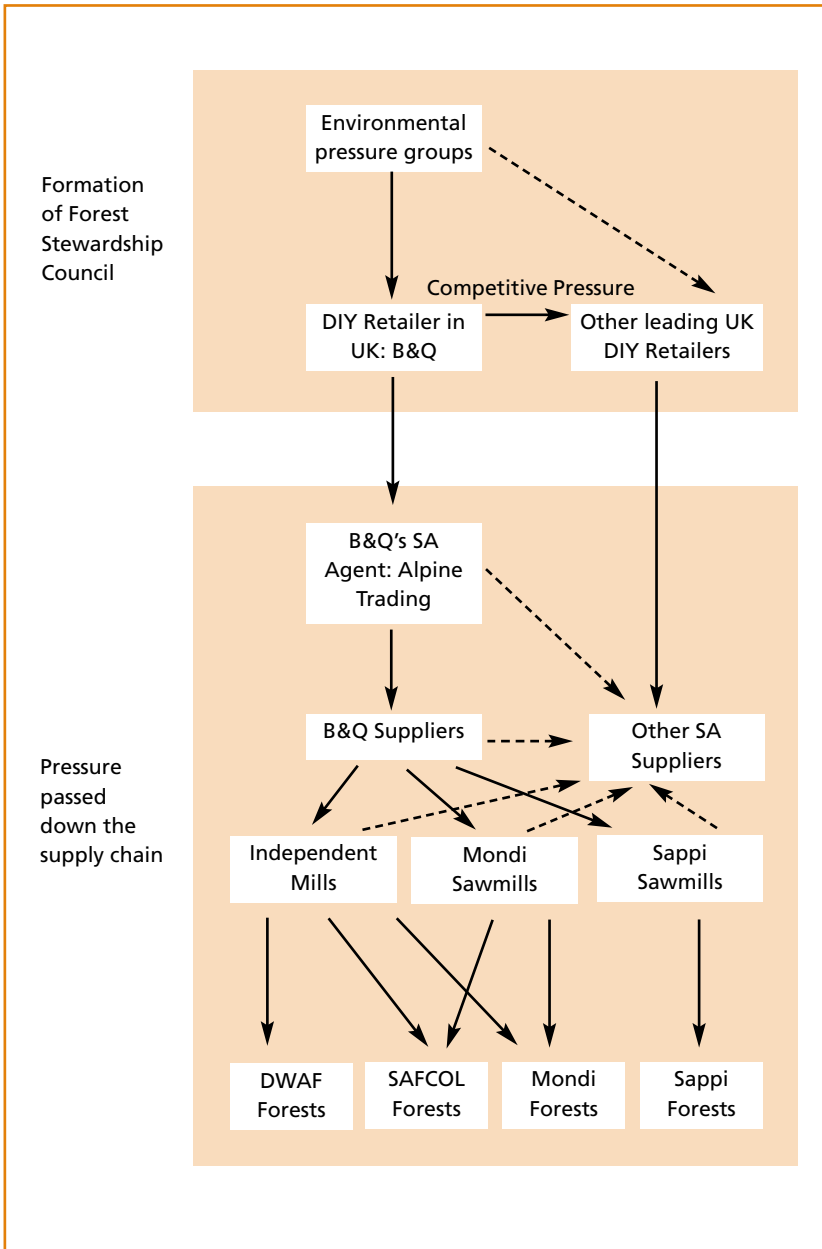
Source: modified from Dunne 2000

4.5 Progress in implementing certification

Experience in implementing certification has varied across the three main forest managers to have adopted the approach to date. Sappi found that the biggest hurdles to overcome in implementing certification were the non-forestry related aspects, such as waste management and health and safety issues in the workshops. Ensuring that they meet the ISO requirement of complying with all national laws is a major headache since there is so much new legislation being passed – Sappi now has a full time contract with a group of environmental lawyers. As well as employees, all contractors have to be trained in ISO procedures. Some Sappi managers see the ISO system as a '*substantial overhead*'. However, the 'Green Team' and their ISO 14001 system are popular with most staff. The appraisal system now includes environmental performance based around ISO 14001. Any employee or visitor to Sappi can fill out a Corrective Action Request and there is an efficient procedure to deal these. Sappi's next step under ISO is to set standards for suppliers. For example they are looking at setting standards for their Project Grow outgrower scheme (see section 5.2) and have drawn up a simple code of practice.

Like Sappi, Mondi's certification efforts also started with an individual – the Environmental Manager of the Forest Division – who developed his own knowledge of the issues then formed a team. In its subsequent training workshops the team found that company staff response on the ground was very mixed, with roughly 20% of forestry staff keen, 60% 'going with the flow' and 20% resistant to its introduction. Mondi now has a Safety, Health, Environmental and Social Responsibility Action request form (SHEAR) – which can be raised by any employee, contractor, or member of the public.

The introduction of certification in SAFCOL was described by its environmental manager as a painful experience requiring a 'paradigm shift' for many staff. The environmental team put in two years of work before they felt that they were ready for the certification assessment. Despite the preparation, the certifiers raised a major CAR (i.e. one which had to be 'closed out' before the forest could be certified) on harvesting systems and soil compaction. The certifiers were also unhappy with the consultation mechanisms and the company had to take another look at how to identify and engage with their primary and secondary stakeholders. It took a year to close out the major CAR and the 'shift' in staff was seen to occur at this time – as they moved from meeting FSC requirements because they were told to do so, to being proud of getting it right.

Thus, although the motivation for certification varies for the three main South African companies, and they have pursued different implementation strategies, there appear to be some *common characteristics of companies which have made progress with certification*:

- *Recognition of the need for standards and systems*. All three companies are now implementing both ISO 14001 and FSC certification within their business, finding that in certain circumstances they need both independently audited standards and a sophisticated environmental management system.

Photo: James Mayers

For the large companies that have invested in certification in South Africa, big improvements in environmental performance have been achieved

- *A committed team*. In each company the environmental manager has had the responsibility for implementing certification and it has been the environmental team who have had to develop the new systems and inspire staff to change their practices.

- *Support from the top*. However dedicated the team, certification has progressed only where senior management have given it firm support

- *A participatory approach*. All the environmental managers stressed the importance of ensuring that staff and contractors felt ownership of the new systems. All had encountered some resistance and introduced programmes of training and workshops to build understanding of, and pride in, certification.

- *Taking it step by step*. All the companies started by getting one area or one division certified first and used that experience to inform the rest of the certification process

- *Emergence of the social challenge*. The social aspects of the certification systems were the most difficult for each of the three major companies. Whilst technical issues had been were grappled with for many years by the industry, the social principles in certification opened up a major new 'can of worms'. Assessors feel more comfortable about the interpretation of these criteria now than they did four years ago and are more likely to stand their ground in assessment results.

The way in which firms have gone about preparing for *chain of custody* certification depends very much on the level of prior knowledge and understanding of the FSC system. One manufacturer reported spending just twenty hours preparing for FSC certification, while other firms assigned the task to a dedicated employee for several months. Running a dual system requires more time to set up, as more detailed paperwork and procedures are required to keep FSC certified and non-certified timber separate throughout the production process. Firms that were ISO certified generally found FSC relatively easy to introduce in their factories to 'follow the trail' of timber from certified plantations, with most integrating FSC and ISO into one system of paperwork. But major challenges remain for the further spread of certification in the relatively unsophisticated SME-dominated South African timber products industry – both to get the procedures right and to prove it through an appropriate 'paper trail'.

4.6 Impacts of certification

The practice of certification in South Africa has produced a range of impacts. Some of these impacts can be seen to be direct results of the certification process, others are indirect and knock-on effects. Some impacts are tangible and short-term, others are intangible and longer-term. One characteristic is shared by all of these impacts – they are difficult to pin down! Ascribing impacts to the practice of certification *per se* as opposed to other actions and events which would have occurred even in the absence of certification – is fraught with difficulty. The following sections are based on assessment of the range of opinions and observations generated by this study.

Impacts on forest management

Forest management, in the narrow sense of the physical management of plantations, was fairly good before certification came along. All those who have been involved in, or who have observed the effect of, certification seem to agree that the procedure has helped tighten up this management. The audits have helped ensure that the existing industry-developed standards are met by companies. They have also raised a broader range of issues, made clearer the system of 'do's and don'ts' around these and, in some cases, have set higher company standards, including:

- *Water monitoring*. The main environmental issue associated with forestry in South Africa is its impact on water sources. Despite having been working on

the practical means to monitor ground water quality and catchments for some years SAFCOL did not have a firm system in place at the time of the audit and CARs were issued on water monitoring. Eventually the three big companies, SAFCOL, Mondi and Sappi realised that this was a common issue and established a joint water monitoring strategy and shared methodology. This system is beginning to show results.

- *Riparian zones*. Mondi managers in particular highlight river-course management as an area which has benefited from certification's scrutiny. A delineation protocol has now been developed with stakeholders which defines the location of wetlands in the landscape.

- *Road building and maintenance*. Forestry roads are often neglected and serve as a continuing source of erosion and pollution of water courses. When one company was issued with a CAR on road maintenance it responded by appointing a 'roads champion' who developed revised road building and maintenance guidelines and ran a training course for company employees. Another recognised in the certification process that on average it had too many roads in its plantations (1 km per 12 ha in some areas) and is now managing a programme of grassing over some roads (aiming for about 1 km per 30-40 ha).

- *Clonal material and genetically modified organisms*. SAFCOL managers note that certification has influenced their priorities and practices of research. Clones are being investigated in particular for their water efficiency and drought tolerance. GMOs are being avoided by SAFCOL (another company is however involved in GMO trials).

Impacts on the ways that companies operate

Systems for environmental management. Much work stimulated by certification processes has gone into tightening up environmental management systems. For example:

- SAFCOL managers note that the company's system of GIS-based spatial planning has been fast-tracked and made routine as a result of certification.

- Sappi believe that implementing ISO 14001 solved a whole host of problems at the same time. The company already had an environmental management system but the implementation had been patchy; implementing ISO ensured that they had a rigorous system for addressing environmental issues in place and mechanisms for ensuring compliance and accountability. The introduction of ISO 14001 also made the company take a systematic look at issues such as solid waste, and health and safety, in their workshops.

- Mondi had many existing systems and procedures prior to certification which suffered from significant inconsistency in their implementation. As part of the process of being FSC certified they took the best elements of the existing systems

and rolled them into one management system. The environmental manager thinks that this systematisation will be good for business in the long-term.
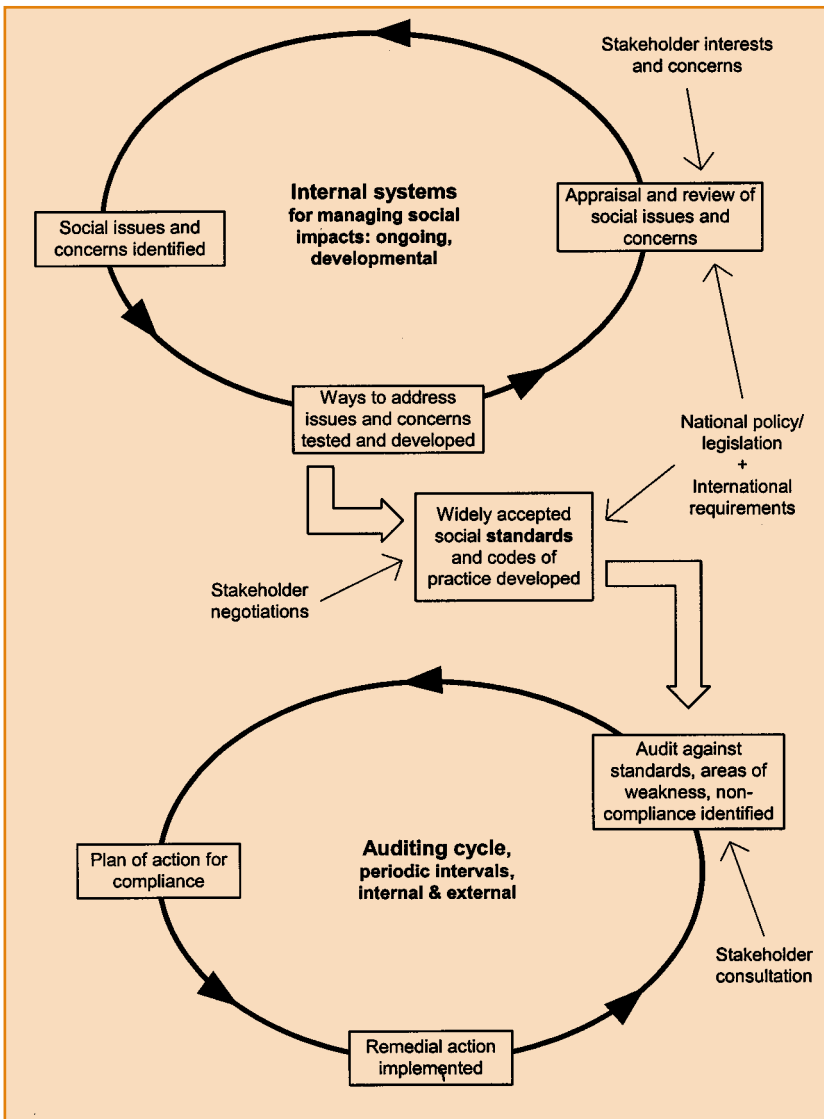
In general, certification has stimulated a raised complement of staff dedicated to environmental management – Sappi now has 13 environmental staff, Mondi 6 – and, in many cases, has strengthened the hand of good foresters within companies[3]. Industry wide, the FOA established a Forest Industry Environmental Committee in large part in response to the challenges of certification. As certification has resulted in company protocols, training and implementation to meet frequent audit requirements, the effort being placed in establishing and refining systems appears to be paying off – good forest management is not simply a practice; for some at least, it is becoming an ethic. One company commentator described the phases which a company goes through: 'from unconscious uncompliant, to conscious uncompliant, to conscious compliant, to unconscious compliant'.

Systems for company learning. Assessors on surveillance visits have consistently reported that companies are learning from the FSC process. Operating procedures and manuals have been improved and training is organised on specific issues. However, there are some notable gaps. For example, forestry staff often have little idea of the end markets for their company's products. One employee summed this attitude up when he stated 'as growers we don't understand our markets' – as far as they are concerned the company mills are the customers. Company learning is, however, not limited to FSC and its requirements. FSC is one part of a bigger learning 'package' wherein companies, through other internal systems, seek to comply with local and international legal requirements, exceed best practices and benchmark their performance.

Company learning on social issues. Until recently, some social problems – health and safety, stakeholder consultations, social responsibility requirements and tenure security legislation – have tended to be viewed by companies as nuisances which, if ignored for long enough, will disappear. But certification has contributed to a broad recognition within management that such an attitude is untenable. However, even where there is the necessary company commitment and initiative, the role certification plays in promoting learning is limited by the nature of the process and the way it is carried out. Feedback is limited to the CARs read out in the closing meeting, and the report that gives very little detail. There is no place in the process to feed back to staff insights gained about their programmes and approaches, to discuss with them ways to move forward (see Figure 9).

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[3] SATGA – the umbrella body for medium-sized non-corporate growers – have an audit scheme for their members, which over 5 years has assessed over 150 farms. The scheme only includes physical-environmental criteria, not socio-economic, and grades farmers on a 1-to-5 scale. Awards are given at SATGA's annual conference for 4-star and 5-star members, and the scheme is popular – '*members can boast about their stars in the pub and can afford the drinks because it is cheaper than certification*'. The scheme gained further kudos recently when the FSC auditor came to pre-assess NCT (most in NCT are also SATGA members) and said that the first step to prepare for certification was to ensure that growers had 3 stars or above on the SATGA system.

Figure 9 Addressing social issues in forestry enterprises: the role of internal systems, standards and audits

Stakeholder interests and concerns

Internal systems for managing social impacts: ongoing, developmental

Appraisal and review of social issues and concerns

Social issues and concerns identified

Ways to address issues and concerns tested and developed

National policy/ legislation + International requirements

Widely accepted social **standards** and codes of practice developed

Stakeholder negotiations

Audit against standards, areas of weakness, non-compliance identified

Plan of action for compliance

Auditing cycle, periodic intervals, internal & external

Stakeholder consultation

Remedial action implemented

Source: adapted from Clarke 2000 [4]

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[4] Notes for Figure. Certification can be seen as part of an overall process for ensuring that social standards are met and maintained within a forestry enterprise. An internal system for managing social impacts within the organisation is needed (top cycle in the Figure), in which social issues are identified and ways to address them are tested and developed on an ongoing basis. This provides the basis for a set of standards, and code of practice to be negotiated. Only then is there the necessary basis for auditing (lower cycle in the Figure). In South Africa to date however, internal systems for managing social impacts and the social standards and code of practice elements of the process have not been adequately developed. This has resulted in the auditing cycle becoming compromised as the tasks of assessors become confused with other elements in the overall process

Reputation management. Companies have clearly been impressed with the impact of certification on their reputations, and have sought to incorporate it in their branding and marketing strategies. Reputation issues have international dimensions – for example SAFCOL is proud of the recognition it receives in international fora such as the launch of the World Bank-WWF Forest Alliance which has a particular focus on spreading certification. (The Scandinavian pulp giant Assi Domann was the only other major company present.) Closer to home, the major forestry companies note that they no longer come under a siege of criticism in meetings with civil society and government groups – they can engage with such groups better, and involve other specialists in their work without fear of being attacked for doing so.

Costs of certification to the companies. It appears that none of the timber companies has undertaken a systematic analysis of the costs and benefits of certification on forest management and find it very difficult to make estimates. However, some calculations of the direct costs have been made. Sappi estimate that putting the ISO 14001 system in place cost around R3 million, not including the price of improvements to plantations and workshops which was estimated to be a further R50,000. SAFCOL calculated that the combined cost of the environmental managers time and certifiers charges amounted to 19 cents per m^3 or 0.03% of the logging cost. In terms of the cost of chain of custody certification, the direct costs (i.e. not including staff time) were estimated by a number of mills and processors to be around R20,000 per mill.

SGS certification charges for chain of custody certification vary according to the size of the company and the complexity of its operations. For a firm with less than 150 employees and a low level of complexity SGS estimates that the charge of the initial audit would be approximately R9,800. However, on top of this basic charge, is the cost of transporting the auditor from his/her office – which was high when all the auditors were based in Europe, but is reducing now that there is an SGS office in Johannesburg, to an average around R2,000. With new competition from SABS, prices may reduce further. Firms with less than ten permanent employees qualify for the small business option and are charged at a lower rate.

Costs for medium-scale growers/producers. For medium-scale growers and producers the direct costs and transaction costs of implementation and administration of the FSC certification process have generally been prohibitive. However, several wattle farmers in KwaZulu Natal have paid these costs to sell FSC certified charcoal to the German market. The emergence of the group schemes, designed to share costs between producers, is beginning to change the picture. These work out cheaper because one FSC registration number, and hence one accreditation fee (paid in pounds) is shared. In addition, the two audits per year are shared between the sites (i.e. out of three sites, only two are audited in any one year, a different one at each audit), which also reduces costs. The emergence of a second certification body also presents an opportunity to lower costs for smaller (as well as larger) growers to acquire certification. However, in the absence of national standards it also generates the risk of 'lowering the hoop' as these bodies compete for work.

Changes in prices and markets

While several manufacturers suggested that there is no difference in the cost of FSC and non-FSC timber, other estimates suggested that FSC timber costs between 6% and 40% more than non-certified timber. On balance, evidence suggests that there is no premium charged on FSC timber *per se*. Price differentials are more likely to be due to three other factors: the availability of timber, the size of the mill, and a period of adjustments within the timber industry in South Africa. Initially there were fears that there would be a lack of FSC timber available on the South African market, and that this would inevitably push prices up, but this does not generally seem to have been the case[5]. While the South African forestry and milling industry is dominated by large firms, small 'bushmills' still play an important role in supplying cheaper timber to the domestic market. However, not many of the smaller mills are FSC certified and if firms shift to FSC-only sourcing then they reduce their supply options which may lead to increased costs overall.

Restructuring in the timber industry has meant the end of subsidies, primarily to SAFCOL, which had long benefited South African timber users. It is estimated that the log price has doubled in the past five years, bringing it to an internationally competitive rate. A persuasive explanation for the perception that FSC has increased timber prices is that FSC has been introduced to South Africa at a time when the industry was undergoing a natural adjustment that led to huge price increases. Any potential price premium specifically associated with FSC has simply been lost in these increases. The overseas markets have adopted the position that they will preferentially source FSC-certified timber without paying more for it, meaning that FSC-certified companies benefit at least by retaining existing markets.

Amongst some of the first B&Q suppliers certified there seems to have been the expectation that B&Q would 'reward' their rapid certification by transferring business from non-certified manufacturers. However, these 'first mover' benefits have not materialised as expected. B&Q instead made it a policy to work with suppliers, and not to penalise them in the short term for not having FSC certification. One South African firm that supplied B&Q was quick to respond to the call for FSC certification and assumed it would get more of B&Q's business once it obtained FSC certification. However, B&Q's perspective was that it was not 'in the spirit of FSC' to prejudice other suppliers before the year 2000 deadline. The firm complained to B&Q, and ultimately the relationship ended. The message received from retailers is that *"green is good as long as it doesn't come at a premium"*. Furthermore, as price remains a crucial determinant of competitiveness, FSC certification has not meant a commitment to long term purchasing on the part of buyers.

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[5] However, Saligna manufacturers are beginning to face chronic supply shortages and it seems that there have been price increases for this timber. Saligna is a species of Eucalypt that has rapidly gained prominence in overseas markets as a sustainable hardwood alternative to tropical hardwoods. Saligna has been particularly linked with FSC due to its use in the DIY and garden furniture subsectors, and its potential to replace hardwoods from less sustainable sources.

Some manufacturers had increased their sales since being certified but many felt that FSC had not given them access to new markets in the way that they had hoped. Some firms feel that having FSC certification has made them more attractive to prospective customers, and others report getting orders for new products from existing customers as these customers try to move away from non-FSC certified suppliers, particularly in Asia. Demand for FSC is still primarily concentrated in the UK and confined to small market segments and particular distribution channels. While some manufacturers feel that fewer benefits have come from certification than they initially expected, none regret being certified, realising that *"although FSC doesn't necessarily open new doors, it prevents doors being closed on us"*.

According to the DIY retailers in the UK, however, first-mover advantage has come into play. They are clear that the relatively early certification of South African manufacturers helped them improve their position in the market. Homebase describe how: *"South Africa came from nowhere, getting FSC quickly, at just the right time, when buyers were looking hard for certified sources and SE Asia was in turmoil."* In 1996, South Africa hardly featured on Homebase's supply list, now the company estimates that around 10% of its timber purchases are from SA, particularly pine doors and shelving.

Transparency in the supply chain generated by certification has effects both up and down the chain. Because all certified products are clearly marked with the manufacturer's certification number, it becomes easier to monitor quality standards. The identification number means that defects can be traced back to the manufacturer, whereas before it might only be possible to identify that a defective product came from South Africa. It is also possible, by looking at FSC certification numbers in retail outlets, for a retailer or customer to spot whether a particular supplier is also supplying its competitors.

Impact on stakeholders

Stakeholder consultation has been the weakest part of the certification process. Its effectiveness depends on the time and resources available and the familiarity of the assessors with the stakeholders in the area being assessed. Problematic aspects include:

- *Incomplete identification of stakeholders*. Company lists of stakeholders have typically consisted of clients, contractors and suppliers, friends and neighbours – which tells us much about how the company sees itself, its social environment and existing networks of communication. Companies are however beginning to redefine the concept of stakeholder to include local communities and other interest groups.

- *Inappropriate methods for engaging with stakeholders*. In their enthusiasm to use assessments to generate understanding, companies have tended to create large groups of district or regional forest managers, contractors and observers touring around together on the audit. This is not conducive to easy

communication with stakeholders such as workers. Many groups do not know anything about FSC and do not know how to respond to the faxes they are sent. Considerable time spent with stakeholders, with careful efforts to overcome language problems and power differences, are needed to overcome this – and to date this has been rare.

● *Skewed/partial stakeholder responses*. As a result of the above, groups of forest managers, contractor managers, forest consultants and academics respond promptly and eagerly, whilst unions, local and provincial government are difficult to get hold of and local communities, labour tenants[6], worker representatives and traditional authorities are in general not consulted at all.

● *Weak feedback and communication beyond the formal process*. Neither the team nor the company have any obligation to feed the results back to the people who have been consulted. Similarly, the means for stakeholders to raise concerns or new issues to the assessors outside or after the formal consultation process are not recognised.

Social responsibility initiatives. Social issues are the least tightly defined of all the FSC criteria but are at least higher up the agenda of some companies now – certification has hastened this. SAFCOL managers believe that certification helped bolster their Corporate Social Investment fund (0.75% of the company's after-tax profit is put into this) – typically used to support school and clinic infrastructure – and speeded the mainstreaming of the company's policy of providing accommodation for workers' families living on plantations (some other companies used to only provide accommodation for senior staff).

Local tenure relations. One of the few examples of a major 'social' CAR being received occurred in a case where a company was in contravention of provisions of the new Security of Tenure Act. This Act is sufficiently specific to serve as an operating standard. However, the company's legal council contested the interpretation of the audit team. This highlighted a debate about the degree of responsibility a company should have to provide infrastructural services to tenants who are not in the company's employ.

Labour and contracting. Issues of labour conditions and contracting also suffer from the above-mentioned vagaries of the current systems. Different social assessors have focused on different issues and come to different conclusions. For example, one assessor raised CARs on unequal pay which another social assessor on a surveillance visit could find no evidence to substantiate. The move to contracting out forestry functions has perhaps begun to be shaped somewhat

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[6] When the South African forestry sector expanded rapidly, a large number of former cattle farms were bought up and afforested. On many of these areas the previous occupants were labour tenants (a labour arrangement whereby a family member or members have to provide unpaid labour to the owner in return for access to land for grazing and ploughing). Since many labour tenants were surplus to forestry company needs, or their presence constituted a fire hazard, dispossessions and disruptions of their traditional lifestyles were common. The legacy of this still manifests itself today in hostility towards timber companies in many areas.

more positively in socio-economic terms as a result of certification's demands that the practices and treatment of contractors involved in a forest management unit must also be assessed.

Major CARs issued by social auditors, related to contractors not complying with FSC principles, create an important precedent. Thus, whilst the company seeking certification may have adequate systems and practices, some of the contractors operating in the forest management unit (FMU). In these instances, the companies have failed to realise that it is the FMU that is being certified, not the company.

Independent contractors are, by definition, not subject to the day-to-day supervision of the landowner. Commonly-held views on the current contracting situation paint a picture, which is without doubt over-simplistic and over-generalised, in which contractors are in breach of every labour statute on the books (see section 2.5.6). Such unlawful activities fall foul of the FSC principles and thus present major problems if they take place on a FMU that is applying for FSC certification.

Small growers and livelihoods. As yet, small growers feel little benefit from certification. Indeed there is some evidence that pursuit of certification may distract from other more pressing needs to improve smallholder livelihoods. Under the forthcoming company certification schemes for outgrowers for example there is likely to be an increased transaction cost for growers seeking to comply with the audit conditions. However positive livelihood-supporting potential can also be seen in organisations such as NCT, strengthened by certification, in keeping small grower timber prices up and distributing benefits across social strata.

Impacts on policy

Government forestry initiatives. The process now underway to develop national principles, criteria, indicators and standards for sustainable forest management is in large part triggered by the experience and potential of certification. As has been noted, many stakeholders have highlighted the importance of such standards in developing better engagement of forest enterprises with social issues and spreading the progress of certification and forest management. It remains to be seen how well focused on these needs, and how well negotiated amongst stakeholders, these standards become. The use of compulsory certification as a proxy for direct government monitoring of compliance with lease conditions is another government initiative stemming from the experience to date with voluntary certification. Again, time will tell whether this will reduce the effectiveness of the incentives in voluntary market-based certification.

Contribution to broader development debates. The process of certification has intensified the questioning and analysis of social issues in the forest sector which in turn has enabled genuine contributions from the forest sector to be made in wider national debates and negotiations on labour, land rights and affirmative action.

Employment conditions in an increasingly contracted-out forest industry are a big issue for certification and for the prospects of responsible forest management

4.7 Summary

About 0.83 million of South Africa's 1.5 million hectares of industrial plantation forest are currently certified under FSC certification, with another 0.5 million hectares covered by ISO 14001 certification of one company's forest operations. A desire to improve competitiveness was the major motivation for certification, although the need to deal with supply chain pressure and environmental and social criticism of the industry were also important. Several key impacts of the certification experience to date can be identified:

- *Environmental management systems have been tightened up*. Certification has achieved considerable impact in terms of improved environmental performance – but only for the large companies who have invested in it. ISO certification has been effective since it allows step-wise progress, and presents opportunities for progress being made from an initial low base of performance – it can also pave the way for achieving and maintaining FSC certification. But ISO is only as good as the company's own internal policies – since these provide the baseline.

- *Only small, specific markets demand certification*. Misconceptions about markets closing up to all but those with FSC certification proliferated until recently – but are now giving way to more realism about the relatively small number of markets actually demanding it. Certain niche markets for certified solid wood products have been found – but the big pulp market is unmoved as yet. If and when certification is demanded in pulp markets to any major degree – proportion-based certification will be a major challenge

- *Market benefits accrue only when certification is combined with other strategies*. Some early adopters have seen orders grow, but few producers receive premiums, rather they may guarantee or increase market share. FSC certification alone appears insufficient to command new business, but combined with an existing relationship with a customer sourcing FSC products, adequate manufacturing capacity or a specific position in the industry (such as in the Saligna subsector), FSC undoubtedly can offer market benefits.

- *Supply chains effects increase transparency – but not equity*. Powerful buyers have seen the opportunity for improving corporate reputation and reducing risk and have sent sustainability messages through supply chains. When they see loss of contracts or potential advantages – manufacturers have urged certification of suppliers. But often suppliers bear most of the costs and buyers reap most of the benefits. The certification process has helped reveal this – but it does not help do much about it.

- *Social issues and smallholder livelihoods – major challenges remaining*. Certification has provided a framework for identifying social issues and stakeholder opinion but social issues have been relatively poorly addressed in the certification processes themselves, although this is starting to change. Small growers as yet feel little benefit from certification, indeed pursuit of certification may distract from other more pressing livelihood needs of smallholders. Whilst collective approaches to certification hold much promise, there is still much capacity needed to make them effective.

- *Policy knock-on effects are considerable*. The success and further potential of certification has helped stimulate the development of national standards for sustainable forest management. These are destined to become law – so their process and content is crucial and demands negotiation. Government already requires certification within two years of agreement of a lease to plantation on government land. It is thus being used as a proxy – a cheaper alternative – to direct government monitoring of forest management. However, compulsory certification to minimum standards may reduce the motivation of managers to go beyond these minima.

Certification represents a major instrument by which the biggest companies in South Africa have invested in, and sought to demonstrate, sustainable forest management. But there is much still to be done if certification is to become an instrument capable of effectively addressing social issues, and of having any relevance at all for small and medium enterprise.

Company-community deals in South African forestry

This section charts the evolution, impacts and current strengths, weaknesses, opportunities and threats of each of the main types of 'deal' between companies and community-based individuals and groups in South Africa. The aim of the analysis carried out on these deals is: to understand the degree to which small-scale outgrower schemes and community-based forestry projects can contribute to local development and promote socially and environmentally sustainable private sector forestry. Various approaches can be considered 'partnerships' in the sense of a 'contract between persons engaged in any business' – but the extent to which we are looking at 'partners as equals' is a key question. Hence, we stick with the term 'deal' until a genuine partnership is evident. In examining the strengths and weaknesses of the different deal mechanisms, other key questions we seek answers to include:

> "I go for gum, my husband was interested in sugar, therefore we have both but when we look at our income I always laugh at him."
> Project Grow member, Ngodweni – quoted in Cairns 2000

- *Why do companies, outgrowers and communities enter these deals, or choose not to?*
- *What alternatives exist to joining outgrower schemes and community-based deals?*
- *What are the conditions of outgrower contracts and community-company agreements?*
- *What are the impacts for the companies, for livelihoods and the wider economy?*

Firstly, we examine briefly the 'social responsibility spending' of companies – which is highly important in terms of company operations, but is not directly focused on fostering partnerships with communities. Secondly, we consider contract arrangements between companies and individual small-scale outgrowers, which have been evolving in South Africa since the early 1980s. Thirdly, we turn to the recent initiatives which seek to create a mutually beneficial relationship between a company and a whole community as the partner entity. Community-based deals are not well established in the forest sector, although there have been various experiments and plans made in recent years.

> "The outgrower scheme gives us the last 10% of the fibre we need, which is much more economically important than the first 10% – because it allows the huge economies of scale to kick in"
> Sappi manager, Pietermartizburg, 1999

5.1 Relationships without partners – corporate social responsibility investments

The major forestry companies in South Africa have for years sponsored a wide variety of small projects designed to improve conditions and relations with communities in or neighbouring forest areas or industry. Indeed the major companies have served as the dominant social and development service providers in some areas. For example, the FOA estimate that there are some 15,000 pupils in schools funded by the industry. Projects and schemes run by Mondi, Sappi and SAFCOL include:

- Grazing schemes – under eucalyptus in Zululand for example, Panicum grasses thrive and can support considerable use for grazing
- Managed access for hunting and harvesting thatch, building materials, mushrooms and medicinal plants
- Intercropping groundnut schemes and vegetable gardens
- Schools and literacy classes
- Clinics and creches
- Recreation and tourism management – hiking, biking, camping, fishing, rafting
- Wood and stone ornamental carving markets
- Sewing machines and classes for women's group

These projects are usually run by the company's human resources department or 'community liaison section' whilst the majority of the company personnel have little link with them. In some other cases, such as those in the fast-growing forest-linked tourism sector, these projects exercise considerable company finance and personnel. SAFCOL has made a major investment in a joint venture with local communities and local labour at Lebanon farms in the Western Cape. Here it has been recognised that fruit and wine production is a more viable land use than the forestry that had been subsidised for years on the land, and SAFCOL has spent R5 million developing the fruit and wine joint venture as an 'empowerment exercise'.

In other areas social spending can be seen as essential tool for companies to manage social risk and be able to maintain their forestry activity. One company manager said "we have to work with communities, they hold us to ransom" with threats of fire and sabotage. In some areas considerable efforts are needed to manage conflicts over access and grazing in plantations. In other areas the companies have acknowledged that some original inhabitants of the land have strong rights to the land and have agreed to undertake 'voluntary withdrawal' – and handover – of certain plantation areas.

From the point of view of both companies' long term social risk management and local people's chances of real empowerment, the potential of more long term mutually beneficial relationships with their immediate neighbours is more important than the relatively short term social responsibility programmes mentioned above.

5.2 Outgrower timber schemes

In outgrower schemes a company provides marketing and production services to farmers to grow trees on their own land under purchasing agreements laid out in a contract. The South African outgrower schemes are in KwaZulu-Natal. The two main schemes are run by Sappi and Mondi, and we also draw on the experience of small grower support initiatives run by SAWGU and NCT.

Key features of the schemes

Estimates of the numbers of individual small-holders involved in some sort of tree-growing scheme with company support range from 11,300 to 14,800 with a total area of land planted from 25,500 to 37,800 ha. The variations in these estimates stem from differences in definition of who can be said to be involved in a scheme – as opposed to those farmers who grow trees independently (there are many more such independents).

Figure 10 Outgrower timber schemes: the nature of the deal
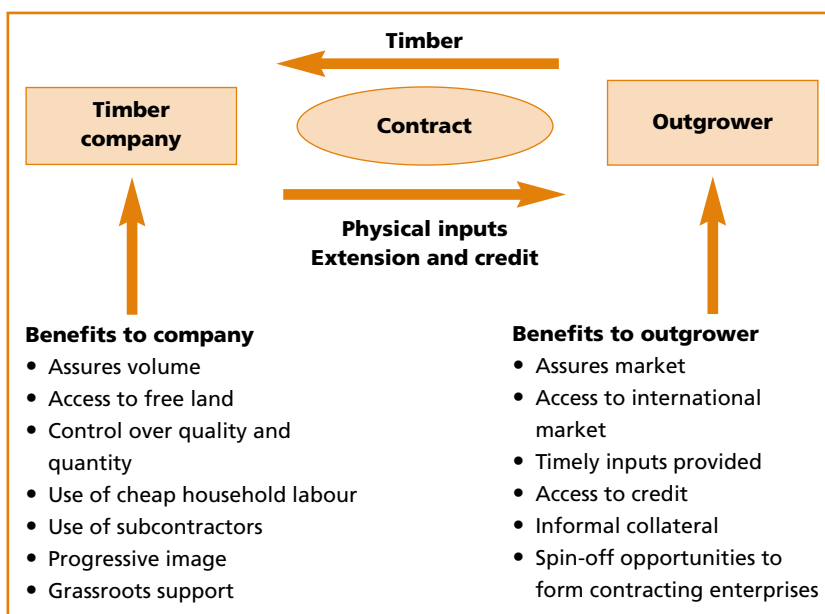
Source: adapted from Cairns 2000

The Sappi and Mondi outgrower schemes are based on the system of contract farming. Growers are provided with physical inputs, loans and extension for the establishment and maintenance of small eucalyptus woodlots. In return they expect the harvest from all trees after a growing cycle of six years on the coast and seven years inland. Figure 10 illustrates the arrangement and the purported benefits.

In addition to the Sappi and Mondi schemes there are two other small-scale timber grower (SSTG) support schemes in Kwazulu Natal. Key features of the outgrower schemes are presented in Table 12.

Table 12 Key features of outgrower schemes in KwaZulu Natal (KZN)

Feature/ Statistic	Mondi – *Khulanathi*	Sappi – Project Grow[7]	South African Wattle Growers Union – *Phezukomkhono*	Natal Cooperative Timbers
Objective	Company business venture	Company social responsibility programme	Union members support scheme	Cooperative members support scheme
Products to Mill	Eucalyptus fibre to Richards Bay mill	Euclayptus fibre to Mandini (Sappi) and Umkomaas (Lima) mills	Wattle bark for tannin extract factories in KZN midlands	Wattle bark in midlands and eucalyptus fibre on coast of KZN
Year Started	1988	1983 (Lima started 1989)	1993	1994 (when formalised – origins in 1970s)
Number of Growers	2,854	7,134 (3,134 + 4,000 Lima)	600 members (out of 2801 total small grower members) in scheme	52 share owning (A Class), 700 ordinary (N-class) members in scheme
Average Plot Size (Ha)	1.5	2.7 (0.8 Lima)	7.5	5.3 to 10.6 2.7 (0.8 Lima)
Hectares	5,904	9,031 + 2,996 Lima = 12.027	4,500 ha	4,000–8,000 ha
Volumes (Tonnes / year)	40,000	56,000 (9,000 + 17,000 Lima)	Not known	Not known

% Mill throughput	3.2%	3% (1.5% Lima)	5% of bark	Not known
Features of Contract	Company encourages use of small contractors. High input levels – high fertiliser and use of clones. Use best sites. Company has removed clause on rights to coppice. Company markets scheme aggressively	Company encourages use of household labour Lower input levels – low fertiliser, seedlings Use steeper slopes Company retains rights to coppice Company promotes through word of mouth	Contract provides inputs for establishment of wattle plantations – fencing wire, seed, fertiliser	Attempt to find highest prices for members Support co-operative development and depot construction to meet A-class requirements (sustainable volumes)
Loans/Credit	Loans with 10% (simple) interest on loan	Smaller loans (than Mondi) with no interest	Inputs provided at 8.5% interest. Loan includes group life and fire insurance	R100,000 loan for all small grower members
Grower Representation	Outgrower associations for administrative purposes only – little leverage with company	Outgrower associations for administrative purposes only – little leverage with company	Small growers have 15% representation on executive bodies of SAWGU via 18 committees. Gives shares in tannin extract factories to growers	A-class members have preferential allocations, bonus prices and representative rights in NCT shareholder meetings

Sources: Cairns 2000 and Zingel 2000

7 The SAPPI scheme is administered by a contract extension agent (Lima) on the Natal South Coast. Lima is a non-governmental rural development organisation.

Company motives for initiating the schemes

Sappi managers note that the company initiated *Project Grow* as a social responsibility programme, whilst Mondi managers state that *Khulanathi* was started as a business venture. This initial difference in emphasis seems to explain some of the differing features of the schemes noted in Table 12.

However, accessing land close to the pulp mills has clearly been a major rationale for both schemes. This land falls under communal tenure and was previously inaccessible to purchase or lease agreements. The need for this land should be seen in the light of the worldwide demand for soluble pulp in the 1980s, combined with tensions with the sugar industry over land in KwaZulu-Natal. Furthermore, most communally owned areas in the coastal zone have a very high potential for forestry (with Mean Annual Increments of 25-30 m³/ha/annum).

The costs of administering the schemes per tonne of fibre produced appear to be higher than those incurred per tonne from commercial plantations, although these costs (at least in Mondi's case) are covered by an unspecified higher margin from the timber sourced from the schemes. Since land rental must also be paid on commercial plantations it is likely that considerable savings are being made from the schemes. Furthermore, the outgrower system generates the additional fibre supply needed for maximisation of economies of scale.

Two other motivational factors can be noted on the company side. Firstly, the schemes should be seen within broader objectives to contract out forestry operations. Secondly, the schemes present a progressive image of the companies and may provide some political benefits.

Through different origins, the SAWGU and NCT initiatives have reached somewhat similar positions. They were formed in response to the 1994 Government of National Unity Reconstruction and Development Programme (RDP) and aimed to integrate small-scale farmers into their respective organisations. The programmes have formalised relationships by providing small farmers with representation at executive levels. Benefits to the companies are probably more political than economic, yet small growers do contribute significant volumes (about 5%) of wattle bark and timber.

Household motives for joining the schemes

Table 13 outlines the incentives and disincentives for households joining the schemes – based on quantitative studies of small grower timber schemes.

New growers join the schemes primarily to obtain cash at harvest – often with a bulk expense such as building, education, or pension supplement in mind (see Box 2). A small number of new growers (possibly 5%) join as a means of securing tenure. This is particularly important for widows whose rights to land become insecure after the death of their husbands.

Box 2 Lessons learned by companies from outgrower schemes

The following lessons were noted by operational level company managers in this study:

- *Strong field staff* giving sound technical advice are crucial

- *Good administration* – saves money. SAPPI abandoned paying by cheque because it required both company staff and growers to travel huge distances. SAPPI now insists that growers have bank accounts and transfers are made electronically. Mondi cannot convince many farmers to have bank accounts and issues cheques which can be cashed at local stores

- *Intercropping* with legumes in first two years gives growers income in early stages and improves soil fertility

- *Consolidate* rather than spread too thinly across areas – transport costs and other costs are prohibitive if volumes per area are too low

- *Strong relationships with growers* are vital – especially after the third year when money for weeding ceases, when firebreaks must be maintained and trees should not be felled early. Visit growers twice a year, use grower meetings and notices in shops, bottle stores and local depots

- *Transparency* is essential – e.g. allocation systems must be explained in terms of world supply, reasons for cutbacks must be understood by all concerned.

- *Management needs change over time* – in the early years it is focused on silvicultural extension, later on managing timber supply e.g. quota systems, contractors availability and pricing

- *Reputation* rather than heavy marketing spreads the word

There have been independent small growers since the early 1960s, in areas of high potential, close to the mills. This indicates that small growers can operate with little or no financial or technical support from timber companies – and that small grower production would not necessarily collapse if the schemes were withdrawn.

Farmers who join the NCT co-operative structure may benefit from higher returns as the co-operative attempts to find the highest prices for its members' product. NCT also tries to cushion the price drop to members in times of oversupply on the world market. These more recent moves by NCT represent significant competition to the deals available to growers in the longer established Sappi and Mondi schemes. Support for small grower co-operative action may also have wider developmental benefits. However, these advantages may be eroded by relatively poor production support (skills training and credit advances) and marketing support (harvest and transport), which impacts on net profits achieved by the growers.

Table 13 Incentives and disincentives for outgrowing

Incentives	Disincentives
Major incentive (80 to 90% of respondents): to obtain cash income at harvest – trees seen as a form of savings (some respondents mentioned that trees are better than cattle in this regard) **Minor incentives** (up to 5% of respondents): ● To obtain the annual payments ● To obtain fuel and sell wood to neighbours ● To secure their rights over unutilized land ● Ease of management compared with food crops ● Reliability of yield ● Persuaded by an extension officer or neighbours ● Land was not suitable for other crops	**Major disincentive** (80 to 90% of respondents): small landholdings **Minor disincentives** (up to 5 % of respondents): ● People wanted to see the real profits from trees before they committed themselves ● The long growing cycle ● Fear of cattle damage ● Preference for other crops (sugar, vegetables, fruit trees) ● Lack of household labour (too busy with other crops or too old to plant) ● Fear of jealousy among neighbours ● Concern for what would happen to the market if the timber companies no longer needed trees ● Suspicion of timber companies motives (stealing land) ● Concern about the inability to change once trees are established

Source: adapted from Cairns 2000.

Box 3 An outgrower's story

Mrs M's husband was interested in planting trees ever since he worked on a farm in Vryheid. He started picking up seedlings and planting around the home long before the Sappi scheme, but in a very haphazard way. He died in 1973. The Sappi forester introduced the scheme at a Tribal Authority meeting and Mrs. M. introduced herself to him at a school meeting. She joined to try to earn money for her family as they had no other source of income. The Sappi forester emphasised that they should not use land where they plant food. They should use steep areas only. Mrs. M. was the first to plant in the Ingodweni area. She started an association of six other women. They had to get forms signed by the Inkosi and he agreed on condition that they plant on their own properties only. Their association boomed. Only women were allowed to join because they do not trust men with money. Her first planting was 25,000 plants and the second was 37,000 plants (about 3 hectares in all). They believe that many contractors are dishonest. Truck drivers are generally suspected of off-loading small-grower timber on the way to the depot. The association planned to get their own transport for their timber, but violence in 1993 disturbed their plans. Mrs. M's house was burnt down in 1996 along with six others. This may have been because of jealousy (she has bought all her furniture, a stove and a fridge from profits), but there is also a long-standing faction fight in the area. Her son has battled to get a job. "I bought him a chain saw and he is harvesting for other people right now". *(Project Grow member in Ingodweni area)*

Source: adapted from Cairns 2000

Grower and non-grower characteristics

Even highly vulnerable, marginal households join the outgrower schemes – since advance payments allow labour deficient and very poor households to use small scale planting and weeding contractors. The exception is those households who do not have sufficient land holdings. These households may comprise youth who have moved away from their parents' small-holdings or newcomers to an area. The schemes may have a highly detrimental effect on these households since they effectively lock up previously unutilised land for an indefinite time. Table 14 outlines the results of an interview survey on sources of livelihood amongst those who join the schemes.

Households in all wealth categories join the schemes as growers. On the other hand, weeding and firebreak contractors and chainsaw operators appear to come from highly vulnerable households, while the transport contractors interviewed all had formal wage earners in their households.

Distribution of risk

Outgrowing can be seen as a way of allocating risk between the grower – who takes the risk of production – and the company – which takes the risk of marketing. The relationship between the two parties is defined by the contract. Box 5 describes how the outgrower contracts work.

In effect companies do take on some of the risks of production since they do not act against loan defaulters. Mondi probably takes somewhat more risk than

Table 14 Sources of livelihood of those who join the schemes (interview sample = 31)

Type of livelihood source	Marginal sources	Vulnerable sources		Semi-vulnerable sources	Reliable sources
	Agriculture or non-farm petty commodity	Unreliable remittance + agriculture	Pension or state welfare + agriculture	Two or more vulnerable sources + agriculture	Wage labour or reliable remittance
Contracted growers	4	3	5	1	5
Non-contracted growers	0	1	1	1	1
Weeding and firebreak	2	0	0	0	0
Chainsaw contractors	3	0	1	0	0
Transport contractors	0	0	0	0	3
Percentage total	34%	14%	24%	7%	28%

Notes to table: Where there is a mix of sources of income or where the main income is derived from formal wage employment (25% of households in KwaZulu-Natal), livelihoods are less vulnerable. However, many households rely solely on welfare payments (7%) or unreliable remittances (12%) for income. Even more vulnerable are those who have no access to formal sector opportunities, or state welfare and rely solely on agriculture and non-farm petty commodity production (about 1%).

Source: Cairns 2000

Sappi because they encourage higher levels of inputs and advance larger loans per hectare. Growers' risks may be measured in terms of the opportunity costs of their land and labour. The SAWGU case shows that where terms have been negotiated with strong associations, growers place great emphasis on protecting their investments (fencing, fire and life insurance and provision to pay back early), and prefer to reduce the burden of interest on loans as soon as possible. However, in overall terms small growers still produce less than 5% of the KwaZulu Natal pulp mills' throughput, and grower associations are as yet weak. The balance of power is evidently still in favour of the companies.

Box 5 How outgrowing contracts work

Growers join and participate in the Sappi and Mondi schemes through the following steps:

- A farmer approaches an extension forester to request to join. The forester accompanies the farmer to see if the site is suitable in terms of general geographic location, soil, rainfall, slope and size of land, and conservation status of vegetation to be disturbed. Initially, Mondi set a lower limit of 1,000 spots (tree plant-ings) which means the site must be at least 0.6 hectares. By 1992, Mondi had lowered this figure to 500 spots;

- Each farmer must have the approval of the local traditional authorities before any work can take place. This is mainly to ensure that farmers do not plant on land allocated to other households. The local government Agricultural Officer is also notified;

- Application is then made to DWAF for permission to plant. Blanket community permits based on quarte-nary catchment information have recently been approved;

More than half of the growers in the outgrower timber schemes are women

Photo: Sappi Image Library

- The forester then explains the operations that need to be done on each partic-ular site and the correct timing for each operation. A contract is then signed by the grower and the company;

- The contract makes provision for an advance to be paid by the company to the grower after he or she successfully completes each operation. In the Mondi scheme the grower is free to keep this money, hire local people to do the work, or have the company arrange for a local contractor. Sappi discourages the use of planting contractors;

- Normally, growers only carry out a subset of operations, which includes mark-ing, ploughing, pitting, planting, fertilising, weeding and fire protection.

- The money paid out to the grower for each operation is essentially a loan advanced against the value of the final product. The grower may also take an additional annual advance against the final value of the crop. Sappi provides interest free loans, Mondi charges 10% simple interest. Amounts advanced are deducted from the final payment, made out to the grower at the time of harvest. The companies provide extension free of charge and fertiliser and other chemicals at bulk cost price. Sappi provides free seedlings. Mondi promotes the use of clones. These are considerably more expensive, but Mondi believes that the cost is justified through the growth rates that can be achieved.

Source: Cairns 2000

Households tend to have insufficient land to make a full time business from tree growing, but many obtain vital income from the outgrower schemes

Economic returns and livelihood impacts for the outgrower

Small woodlots on virgin ground using clonal varieties produce equivalent and sometimes even better returns than the industrial plantations, since the proportional effect of edge trees – which capture more light, heat and nutrient – is more significant than in the blanket planting regimes. However, small average sizes of land tend to militate against full time enterprises centred on outgrower forestry. Table 15 illustrates the direct financial returns for a household participating in an outgrower scheme (in this case Project Grow).

The averages in Table 15 mask great variation. Some growers fell too early in order to obtain cash when needed for urgent situations or when they become alarmed at the build up of interest. Management practices – site preparation, weeding, fire and stock protection, felling at the correct time – vary considerably among growers, significantly affecting yields and net profits. Some growers have been encouraged to plant in areas with insufficient access roads and now face high costs for short haulage. Other growers have been given assistance by the company in arranging contractors at reasonable rates, which significantly improves net profits.

With a national 'abject poverty line' calculated at R750 per month it is estimated that the outgrower schemes contribute, under average management, from 12% to 45% of the income needed for a household to remain just above this line (with the average figures listed in Table 15 the figure for one hectare is 17%). The schemes cannot alone take households out of poverty because access to land in communal areas is limited. The livelihoods of outgrower households remain vulnerable, even if production risks are not also taken into account.

Competition with food crops for land or labour does not appear prevalent, as yet, because trees are generally planted on land unsuitable for food crops and operations are carried out at times in the year when agricultural activities are minimal. This situation may change as households increase the area under trees. However, the schemes do pose an opportunity cost for potential high-value cash crops, considering in particular the costs of destumping. But as long as the enabling policies and support systems for such crops with comparative advantage remain unrealised in KwaZulu-Natal, then so does this opportunity cost. In any case, such comparative advantages of crops are difficult to assess in small farm systems.

There is evidence that outgrower woodlots have depleted water sources in some areas. In addition to the direct impact on the natural asset base, this raises labour demands as women must walk further each day to fetch water.

Table 15 Average household financial returns from outgrowing (Sappi Project Grow)

Assumptions

Yield (Sappi average)	133 ton/ha	Indirect Costs	
Local depot price	R140/t	Tractor water	R418
Harvest & short haulage	R45/t	Clones	R150
		Fertiliser	R144
			R1012
Establishment costs 1st yr		Maintenance costs 2nd yr	
Direct Costs		Hoe rows	R81
Ploughing	R562	Advance	R73
Mark Pit	R22	Fire protection	R55
Planting	R53		R209
Blanking	R43	Maintenance costs 3-5th yr	
Manual water	R33	Fire protection	R55
Weeding (x2)	R81	Advance	R73
Advance	R74		R128
Fertilising	R36	Interest over 6 years	
Fire protection	R55	10% p.a. (simple)	R1415
	R959		

Calculation of net profit	Per Hectare
Gross profit (Yield x Depot price)	R18 620
Less average costs incurred	
Establishment costs (direct and indirect)	R1971
2nd year costs	R209
3rd – 5th year costs	R128
Interest	R1415
Harvest & Short haulage (Contractor costs x 108t)	R5985
Net profit (over 6 years)	**R8912**

Source: Cairns 2000

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Furthermore, contrary to what might be expected, the schemes do not significantly improve fuel wood availability.

Amongst some outgrowers there is dissatisfaction with being tied to supplying a single timber industry client. This is evident in the increase in those selling to the higher prices paid by NCT. The fact that there are independent growers in high potential areas, close to the mills, shows that small growers can operate without support from companies. There is some evidence that outgrowers would like the freedom to supply whomsoever they wish once the basic debts to the companies are honoured. After the first rotation some outgrowers can use their accumulated capital to finance the next rotation and then identify their own customers. This represents a change in risk which may be in the growers interests to accommodate.

Wider developmental impact of the schemes

The 'acid test' of initiatives designed to provide local development benefits (and we must bear in mind that Sappi and Mondi make few claims about their schemes in terms of local empowerment) is whether 'spin-off' development initiatives emerge, run by local people. There are a few, and these spin-off opportunities appear to be maximised in areas administered by Lima (labour-based access roads, agricultural depots and contractor development). This may be the major advantage of outsourcing administration to a professional rural development organisation.

Emergence of contractors servicing outgrowers

In comparison with the sugar industry, the timber industry has not yet provided major impetus for development of the necessary skills and capital accumulation for large numbers of small scale contracting enterprises. However, various types of contractor are crucial to outgrower schemes in KwaZulu Natal:

- *Planting and weeding contractors* are drawn from very poor households and are paid low wages (R20-R25/day). There are perhaps 60 planting and weeding contractors (in 6 groups). They allow labour deficient households (where adult members are pensioners, or migrant workers) to participate in the schemes as advance payments to growers cover the set rates charged by these contractors.

- *Chainsaw operators* may earn more (R35/day). Some (possibly former employees in forestry) have progressed to form labour teams. These operators may earn R6,000 per month above expenses, if there is sufficient work. There are perhaps 70 chainsaw operators currently.

- *Transport operators* organised by Sappi and Mondi charge reasonable rates to growers, but allegedly struggle to make a profit. Transport contractors have emerged mainly from local business and the sugar industry. There are about 40 short haulage transporters operating among small growers. In addition, Sappi uses 4 small-scale long haulage transporters.

Interviews with contractors highlight the need for business skills training in particular.

Box 7 Outgrower timber contributions to livelihoods

Household management of the returns at harvesting are diverse, with the contract holder usually investing in essentials such as school fees, buildings, building improvements and marriage payments or paying off or purchasing vehicles. Some develop secondary enterprises such as contracting or taxi transport. Use is made of early harvesting, at say 4 years, to meet short term cash needs, and the original planting material and coppice material may at times be used in well developed local secondary markets for building poles. These can get saturated.

Most household heads who have formal jobs remain in migrant wage labour or commute. Economic returns in relation to wage labour levels imply the need for growers to manage a minimum 3 ha on a rotational basis. Since the range of land holding sizes is wide, some growers manage a range of enterprises from a base in forestry outgrowing, and many expand into contracting or sharecropping, entering into informal lease agreements for the management of the stands and coppice with generally weaker households who cannot cope. Where holdings are very small, households struggle to realise any real returns, and some are thus beginning to hand their stands to the sharecroppers, so that they are at least guaranteed an agreed return. More entrepreneurial individuals have accumulated rights to develop up to 100ha in this manner.

Sources: Zingel 2000 and Ojwang 2000

Mr. N. was originally from St. Lucia but following the death of his first wife he has been living with his second wide at Mfekayi. The food bill for his children is about R500 per month plus R500 for his second wife's family. He would like to grow trees but has no land. He has never approached the traditional authority for land but thinks that he would probably not get any because there is not much open space left in the area.

Mr. N used to work for SAPPI but was retrenched in 1993. With his small pension he was able to buy a chainsaw and begin contracting at Mfekayi. He now employs two men and 8 women at R15/day. He has trained these people himself. He is normally able to find work for 6 weeks out of 8 in Mfekayi and charges R25/tonne for felling. It takes about a week to fell one hectare. Whenever he finishes a job he reports to the weighbridge and the foresters then direct growers to him. At the end of the day after paying labour, petrol and repairs to the chainsaw, he does not earn much.

Mr N. suggested that Mondi could help contractors in the following ways:
● Provide short term loans (e.g. to fix the chainsaw if it breaks during a job)
● Help training in business skills management
● Help in technical training
(Khulanathi chainsaw contractor, Mfekayi)

Source: adapted from Cairns 2000

Credit and infrastructure development

Approximately R1.2 million in loans is made available by the companies each year under the schemes – they are thus significant providers of credit in the areas where they operate. The schemes have also provided some infrastructure in the form of depots. These depots have become places for growers to meet contractors and foresters. The timber industry has been less successful than the sugar industry in raising government money for access roads.

Land conflict and emerging elites

Various interest groups within communities may compete with timber growers for land. The two major parties are: *pastoralists* whose grazing land is depleted (this land may have been previously allocated to grower households but used communally); and *youth* who fear that unutilised land for future households is rapidly disappearing. Conflict has occurred in particular within communities where Tribal Authorities have allocated large tracts of land for forestry. Issues of ownership and responsibility and distribution of profits have been added to the above land use conflicts. While Tribal Authorities do generally act to prevent acquisition of large holdings, an elite group of timber growers can develop through astute use of the mechanisms of land allocation, purchase and sharecropping.

Impacts on gender relations

More than half the growers in the schemes are women. But all the company extension officers and foresters are men. This is likely to have hindered communication and skewed understanding of the specific dynamics and problems related to gender relations. It appears that the schemes cannot assist women to access new land but they are used successfully by female-headed households to secure existing rights over land use. The woodlots have not particularly locked women into cash crop activities. Married women have lower decision making powers over their labour and benefits gained from the schemes. Households often share profits in a responsible manner, however, despite the

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Box 9 A husband and wife tree growing story

Mrs S. first heard about the scheme from neighbours. Her main interest in trees was to get some cash income. After asking permission from her husband she planted the trees in 1994, using Mondi contractors for all operations. The trees were registered in her name.

In 1999 her daughter got married. Her husband who works in Durban decided to harvest the trees to get money for the wedding. Mondi was contacted to provide contractors but there is always a long waiting list and they could not wait for the transport to arrive. They found their own contractors and paid them as follows:

Area	0.9 ha
Yield	about 93 tonnes (103 tonnes/ha)
	(Compare with 177 tonnes/ha of best grower)
Felling	R150 / truck load x 10 trucks
Stacking	10 people R10/day for 20 day
Transport	R150 / load
Loaders	R20 / load (on) per truck
	R10 / load (off) per truck
	————
Total contractors	R5,300
	(Compare Mondi price at R42/tonne = about R4,200)
Mondi loan repayment	R2,302
Total income (probably)	R13,113
	(Compare R14,570/ha with R24,761/ha of best grower)
Take home (probably)	R5,511
	(Compare R6,123/ha with R15,238 of best grower)

Mrs S. does not know how much was earned as her husband took the money. She does not belong to any association of growers though she believes it could be useful to exchange experiences with others. She believes the family had no choice but to harvest early as the money was needed urgently. Her husband is seldom home and has a girlfriend in Durban so does not send much of his earnings to her.
(Khulanathi grower, Esikhaweni area)

Source: adapted from Cairns 2000

Table 16 Comparing outgrower sugar cane and timber

Key features	Small-scale sugar production	Timber outgrowing
Historical investment	Considerable investment in small milling 1940-1955 and state promotion of a producer class. Integration into protected 'white' industry in 1970s with strong state support. Rapid and dramatic grower uptake under these frameworks of support.	Early state support for planting for timber, conservation and erosion control. 1930s shift to restrictions on expanding peasantry, introduction of central plantations in reserves and wage labour. Some state planting support in 1960s-1970s. Grower uptake patchy.
Current support structure	Centralised industry sourcing and management of credit. Millers as agents and extension service providers. Guaranteed markets and high industry tariff protection, with preferential prices for (white) growers. Strong state support (legacy of apartheid Kwa-Zulu government) for roads and extension.	Company sourcing and management of credit and limited extension. No state extension, infrastructure or technology transfer support. Single buyers linked to company contracts. Recent diversification of market options and prices (e.g. NCT). No tariff protection or price support.
Numbers of growers, areas and production involved	About 45,000 small growers on 60,000 ha producing 4.1 million tonnes = 13% of total cane throughput and 23% of total land	About 13,000 small growers on 31,000 ha producing 100,000 tonnes = 3–5% of total fibre throughput and 4% of land
Credit, production and profits	Contract farming system – advances for annual tasks, deducted from milling proceeds. Retention scheme added. Subsidised interest. Yields 41 tonnes/ha/annum average against industry average of 71 tonnes. Average annual returns R560 (range R6,900 irrigated to R258)	Similar. No retention schemes. 10% simple interest, or no interest. Yields: 22 tonnes MAI against industrial average of 25 tonnes. Average annual returns R1,485
Institutional development	Strong. Funded trust supports local association development, integrated into mill cane committttee structure. Strong central representation at central level. No equity participation.	Minimal or weak in outgrowers schemes. Some local downstream. Well integrated at central and local levels in SAWGU and NCT. Equity in both.

Trends	Reduction in tariff protection. Low cost SADC producer/price competition. Industry expansion to Africa. Divestment and land reform on company estates – reduces risk and gearing. Deregulation of small producers and withdrawal of some company support. Increased small-grower vulnerability.	Commodity cycle peaks and troughs being managed for outgrowers. Early stages of divestment in estates. Outgrowers well located for opportunities in agri-business, supported land reform, and privatisation of state assets. Outgrowers vulnerable to company policy changes.

Source: adapted from Zingel 2000

companies' efforts to register forests in the name of the appropriate person there is little that protects women in abusive relationships. Most gender tensions within grower households seem to be attributable more to unequal power relations legitimised by society than to the schemes themselves.

Comparison of timber and sugar cane outgrowers

Comparisons with the other major 'outgrower' model in the region – small-scale sugar cane production is useful. Levels of development, support, output and organisation of small-scale sugar cane provide important insights for better forestry outgrowing. Some key contrasts and structural issues are noted in Table 16.

Changing structural conditions in the sugar industry, combined with deregulation, may have significant effects on the sustainability in small-scale production. Many of the larger white producers close to the processing plants are considering shifts into timber production, where long term returns and a reduced investment in labour are attractive given the future regime of reducing tariffs.

5.3 Community-based deals

Deals for tree-growing between companies and community groups, through instruments such as joint ventures, are newer to South Africa and far less expansive in terms of area covered than outgrower schemes. Outgrower contracts with whole community-level groups have not been particularly successful under the company schemes in KwaZulu-Natal. Major problems seem to occur around ownership, responsibilities, distribution of benefits and the opportunity cost of whole groups giving up large tracts of land for forestry.

Community-based deals range in type and origin. They may be relatively spontaneous and unexpected by the company; an example of this is the taungya-style groundnut scheme on Mondi plantations in Tzaneen, which started in the early 1980s. In this scheme, communities do not actually grow trees, but groundnut planting and management by them involves a number of activities that benefit the company's own operations while enabling

communities to grow a marketable crop. Mondi (then HL&H) did not formally invite this activity, but rather observed it for a while and then applied the company's new learning about mutually beneficial community-company land use to its land in White River and Piet Retief.

Companies find it easier, legally and operationally, to make dealings with individual outgrowers than with broader, organised community groupings. One of the main obstacles for companies dealing with community groups is the relatively low levels of capacity within companies to understand social dynamics in a detailed sense. Companies are reluctant to pay for the transaction costs involved in building community capacity to a degree where the company feels assured that it is involved in a relationship with a willing, motivated and knowledgeable partner. Thus, the private sector perceives considerable risk in deals with local communities.

Box 10 Fruit farm equity sharing – lessons for forestry

There is considerable potential for partnerships where a history of significant mutual trust exists between the parties. An example is *Whitehall Farms Equity Sharing Scheme*, whose relative success has been attributed to the good labour relations between the owners of the farm and workers. Located in Western Cape Province, Whitehall is a deciduous fruit farm of a little less than 180 hectares. There are two legal entities – the Whitehall Landholding Company (which owns the immovable property), and the Whitehall Farming Trust (which holds the moveable property). The Workers Trust and the Hall Family Trust each hold half the shares in both entities. Participating employees share equally with the previous owners in profits and capital growth and each group has the same number of directors and trustees. Participation in this scheme is voluntary and available to all permanent workers. Participants forego their annual bonuses as a contribution to the scheme and receive title to shares in the Whitehall Workers Trust as a result. Furthermore, in order to fund their purchase, the Workers Trust borrowed from two development agencies, IDT and DBSA and a commercial bank securing loans through bonds on the property. By blending financial resources, average interest rates were substantially below the full commercial rate. To date, the scheme has achieved generally increasing yields, substantial gains in labour productivity and reduced absenteeism, a significant reduction in staff turnover, and increased worker satisfaction with wages and conditions of employment and working conditions.

Source: Foy and Pitcher 1999, Ojwang 2000

Challenges for representation in community institutions

Many rural areas of South Africa are typified by rather weak levels of community cohesion. Complications arise from the fact that sharing a common resource does not in itself make for an harmonious and homogeneous community. Various smaller groups with differing interests such as women and youth groups may be more individually cohesive than the 'community' as a whole. However, there are several collective legal mechanisms available for representation of the community:

- *Communal Property Association (CPA).* This is a legal mechanism for communities to own land. The process of developing the CPA defines the grouping which represents the community. Pioneered by the North Eastern Cape Forests initiative, some fairly well developed and robust procedures have emerged for forming CPAs. Some of the CPAs so far constituted have more than two hundred members, others only about ten.

- *Community Trust.* This is a flexible arrangement allowing trustees and beneficiaries to change. Yet the absence of strict rules guiding trust procedures can foster mismanagement and a lack of transparency. This often discourages community members and private investors who perceive risks to their investments.

- *Section 21 Company.* This is an association, not for gain, limited by guarantee, under the Companies Act. A Memorandum and Articles of Association detail a Section 21 company's regulations and objectives. As with a Community Trust, changes in membership do not affect its existence. However, considerable transaction costs are involved in establishing such companies and, for communities lacking in technical and managerial skills, this may prove prohibitive.

- *Co-operative.* These are democratic structures comprising of a recorded number of members with voting rights, a capital structure and methods of distribution of profit and loss. Members are responsible for losses incurred. SAWGU for example is made up of individual growers, and NCT was set up initially to ease transportation costs from the growers to the processor through joint transportation. Whilst these are not examples of representation of communities, the mechanism could be used in this way.

Experience to date in the Eastern Cape

Companies recognise, that the issue of partnership with community entities will have to be tackled squarely if increased volumes of fibre – requiring significant new afforestation – are going to be generated. This is largely because most of the area of new afforestable land in South Africa is found in the Eastern Cape province in areas under communitarian tenure regimes. In these areas, the expansion of the small-grower approach may not be practical. Parts of government, some NGOs and some communities also see great potential here – the rural areas of the Eastern Cape badly need development opportunities and forestry may be in a better position than most to provide one. Distant mills and a comparatively poor road system, however, remain important commercial disincentives.

With a view to generating ideas and lessons on how community-based deals with companies might lead to effective and equitable partnerships, we review some current or recent initiatives. Two main types are reviewed:

- *Joint ventures*. In these cases the parties set up a joint commercial venture company where each party has a share or equity stake in the company commensurate with the value of their contribution. Each party shares in the ownership, proceeds and liabilities of the company. In the Eastern Cape, communities entering into such partnerships usually contribute their land, labour and/or their Settlement and Land Acquisition Grants[8] to the venture. Private Sector companies contribute capital, expertise, physical assets, information, networks, etc and also take most of the risk in terms of purchasing, processing and marketing the produce. Consequently, the community stake in most of these ventures tends to be relatively small, usually in the region of 10%.

- *Leases with shared equity*. The process of restructuring state forests in the Eastern Cape is encouraging the development of a combination of partnerships, particularly the combination of leases and equity sharing arrangements. This is because the State has required that companies wanting to lease state forests must have a 10% black economic empowerment stake in their companies. Consequently, the preferred bidders for the category A state forests have made 10% (and sometimes more) of their shares available to legal entities representing communities neighbouring the forests, and also to workers trusts. This type of partnership is also developing in the tourism sector through the investment facilitation strategies known as Spatial Development Initiatives.

Table 17 shows the main parties and stakes in these deals.

Although currently mothballed, the *North East Cape Forests* (NECF) initiative is instructive of the potential for community-based deals. Developing mechanisms for the creation and management of viable Communal Property Associations (CPAs) was a key feature of NECF. The CPAs had the responsibility of mediating in the project, including taking precautionary measures to prevent damage or use of trees not sanctioned by the agreement, and to oversee the creation of other community subcommittees. Whilst NECF bore the financial risks, the community was also exposed to certain risks. Some of the land earmarked for afforestation was previously used for grazing and risks of dissent and opposition from livestock owners and other previous individual users were real.

The CPAs involved held an equity stake based on the value of their land earmarked for afforestation. The land value stood at 20% of the input costs while the remaining 80% was the private consortium's contribution. The NECF consortium recognised that the community's stake was quite low and needed to be increased if empowerment goals were to be realised. Hence NECF explored other funding opportunities which could increase benefit flows to the communities.

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8 Settlement and Land Acquisition Grants are worth R16,000 per qualifying person and can be used for purchasing equipment or any land for sale. It is the larger of several grants available to people in the land redistribution programme.

Working a eucalyptus woodlot in the Eastern Cape. Forestry deals between companies and whole communities could be an important route to local development in future

Government is also directly engaged in seeking company-community deals in the Eastern Cape. DWAF has embarked on the transfer to communities of the currently non-commercially viable forests it holds in the former homelands. In the Eastern Cape, these areas consist of about 150 lots – some plantations as well as woodlands – totalling about 12,000 ha and employing some 1,300 labourers. The legal mechanism proposed for these transfers is the CPA. DWAF has recognised that communities are wary of involvement in forestry because of a conflictual history with forest developments. It also recognises that involvement of private sector investors is crucial if forestry is to stand a chance of contributing to local development. In 2000, DWAF founded a *Forest Enterprise Development Office* in the Eastern Cape as a pilot exercise to deal with devolution of the DWAF-held areas and to link communities with potential private sector investors. This agency aims to act as a firewall between investors and communities, offering brokering and guidance on financing and equity deals for forest development.

Most of the company-community deals described above are either shelved, facing difficulties or are still in their fairly early stages of development. Thus the overall momentum for such deals is fragile, and their patchy history means that lessons drawn should be treated with some caution. Nevertheless, tentative lessons will be needed over the next few years during community demands for development in the Eastern Cape, and company desires for more fibre and other business opportunities, are likely to rise. We turn to this in section 6.3.

Table 17 Company-community forestry deals in the Eastern Cape

Initiative	Partners	Main Features of the deal
Umzimkulu-Mondi joint venture	Mondi and Communities (Trusts) – on state land	Mondi encouraged communities to form CPAs and use their Settlement and Land Acquisition Grants to buy land appropriated from white farmers. Mondi to provide extension, start up capital and technical assistance for tree growing. Mondi now handing over to a managing agency.
Lambazi-Sappi joint venture	Sappi and Communities (planned CPAs) – on state land	Company sought to deal with communities who have historical claims to lands formerly controlled by state agricultural corporation – to contribute 2,000 ha for tree planting with commercial return. Have contracted local NGO (Lima) to facilitate and are also seeking donor finance.
Ugie-North Eastern Cape Forests joint venture	NECF and Communities (CPAs) – on community land	NECF comprising Anglo-American, de Beers, IDC and Mondi bought 100,000 ha from large farmers for planting up in conjunction with developing a processing facility in Eastern Cape. Turned out to be poor land – only 35,000 ha planted. Converted the project into 3 community schemes with a view to making up some of the shortfall – and helped developed the CPAs. Planting started in one of them. CPAs to contribute land and labour, both parties to protect. Plans too for related infrastructural and economic development. Drop in market price for pulp and wider company decision to halt plans for more mills led to project being shelved.
Singisi Forests lease with shared equity	Communities (Trusts), workers and companies – on state land	The Hans Merensky Corporation has set up a joint commercial forestry venture with equity stakes in the company commensurate with the value of partner contributions, as follows: ● Hans Merensky Corporation 51% ● East Cape Development Corporation 10% ● Black Empowerment Trust – E. Cape entrepreneurs 14% ● Singalanga Community Development Trust 10% ● Employees (Hans Merensky & DWAF/SAFCOL) 9% ● National Empowerment Fund 6%

		This consortium has been selected as preferred bidder for the government's privatisation of a package of some 57,000 ha of forests in the Kokstad and Umtata regions. Hans Merensky Corporation contributes capital, expertise and physical assets and takes most of the risk in terms of purchasing, processing and marketing produce. Planning at community level is still in the early stages.
Amatola Forests lease with shared equity	Communities (Trusts), workers and companies – on state land	Like the Singisi case, the preferred bidders for DWAF's sell-off of forests in the Amatola and Katberg mountains is a consortium. This involves two private forestry and saw milling companies, whilst the communities neighbouring the forests and the workers involved in the companies are represented by Trusts. The community and worker stakes in the venture amount to 30% and the workers have used their Settlement and Land Acquisition Grants to buy into the company. This consortium has indicated that it will sub-contract certain operations to local small-scale entrepreneurs. However, negotiations have been suspended because of outstanding debts.
Tsitsikamma Khoisan Village	Community (Trust and Section 21 Company) and companies – on community land	Tsitsikamma Forest Trust, situated on the eastern bank of the Bloukrans River, was established as the legal land holding entity (Section 21 company) for 29 ha of land transferred from the state to the community in 1997. The trust has entered into partnerships with three separate private and public/private organisations: Bloukrans Bungy, Eastern Cape Tourism Board and South African National Parks. Community members have contributed land and buildings. Tourism development focuses on promoting awareness of the local indigenous cultures (Khoi/San) including accommodation, craft production and selling, a museum and bungy jumping.

Sources: Sisitka 2000, Andrew *et al* 2000, and Bethlehem 2001 (pers.comm.)

5.4 Summary

Corporate social responsibility initiatives in forestry have been around for years. Outgrower schemes tread a rather different line – somewhere on the boundary between corporate social responsibility and hard-nosed business. Outgrowing is a way of allocating risk between producer and contractor: the former takes the risk of production and the latter the risk of marketing. The relationship between the two parties is defined by the contract and the relative strengths and bargaining positions of the two parties is largely defined by the economic and policy context in which the contract is embedded.

Outgrower schemes have become a vital part of the commercial strategy of the large forest companies in South Africa. Whilst company managers note that outgrower timber only provides a small proportion of throughput, and is the most expensive per tonne, they also note that the outgrower schemes provide fibre to the companies that would otherwise be unavailable because of land constraints. This allows a volume of production to be reached which achieves economies of large scale.

Outgrower schemes have contributed to household income but have not yet taken households out of poverty. Outgrowers' associations are still weak in terms of their ability to lobby for small-grower interests. Set up by the timber companies themselves for administrative purposes, these groups function to co-ordinate meetings and training, and to allocate quotas and payments. However, they lack real power since they lack the capacity to engage with policies and institutions that affect their livelihoods.

Internal class and community conflicts are likely to rise in future as land for future households becomes in shorter supply. Land that has traditionally been communal is in places now being privatised, and questions of ownership and responsibility are likely to loom large over the next few years.

In contrast to the individually-based outgrower schemes, community-based forestry deals have only received attention recently. These have focused on the Eastern Cape, where potential for new forestry is greatest. Yet there are some major disincentives for companies in developing community-based deals in the Eastern Cape. These include some of the general challenges posed by the underdevelopment of much of the region: poor roads and huge transport distances (60% of the market price for wood fibre produced in the Eastern Cape is transport cost) and little primary industry. In this context the existing forestry companies' enthusiasm for partnership approaches blows hot and cold depending on internal strategic decision-making related to company gearing, wider markets and the international pulp price. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships may be slow to get off the ground.

Challenges ahead – growth, livelihoods and sustainability

It has been said that private sector forestry has reached an important watershed in South Africa. Some people use 'watershed' metaphorically, others use it quite literally. Those who speak metaphorically point out that the *status quo* of the early 1990s is no longer legitimate or viable, and note that companies, civil society and government all realise this. In fostering the National Forestry Action Programme, creating new forest policy and legislation, steering development of national forest standards and restructuring its commercial forest assets, the government has so far been the most active change agent. A framework has been articulated within which the private sector can operate. Companies meanwhile have faced their own business imperatives, and have established small grower schemes, attempted grower partnerships with communities with variable success, and adopted certification – all as measures which make good business sense.

Those who talk of watersheds and private sector forestry more literally, are referring to the ongoing debate about plantation forestry as a water-using industry in a water-scarce country. They question the role and methods of forestry, compared to other land uses, in water management, employment generation and local development. Both the metaphorical and literal perspectives on watersheds have made important points.

Looking ahead, how can private sector forestry play its part in pursuing and balancing all three of the key national objectives of economic efficiency, environmental sustainability and social empowerment? What is the vision of future forestry, and what challenges lie ahead in getting there? This section turns to addressing these questions.

6.1 Future industry growth – new assets, new players

Future growth in South Africa's forest industry is possible and probably commercially viable. The pace of future growth is however unlikely to match the rapid rate witnessed over the last few decades. It will also be driven and influenced by a markedly different set of factors, and occur in a very different context, to that under which it has essentially developed to date. Fundamentally, the industry's future growth prospects and the pattern of development will be determined by:

- Level of demand for forest products, both nationally and locally.
- Opportunities to expand fibre supply to meet increasing demand from local and international markets.

- Industry's ability to remain competitive in the face of a new economic and policy context which directly and indirectly affects the costs of doing business in South Africa for increasingly international companies participating in a global industry.

- Investment decisions of South Africa's major companies who are now increasingly part of an international pulp and paper industry which offers numerous opportunities and venues for investment.

- Industry's ability to respond to emerging market requirements for proven environmental and social sustainability through mechanisms such as certification and remain competitive.

Future demand for forest products

The major source of growth in South Africa's forest industry will almost certainly be the pulp and paper sector. While opportunities exist and others will emerge for growth in the solid and mechanical wood sectors the long term prospects in these industry segments are limited and certainly lower than in the more dynamic pulp and paper sector on which both South Africa's major companies have clearly sought to concentrate in recent years.

In terms of domestic demand, current annual per capita consumption of paper and board in South Africa, at around 45 kg, is well below that of other regions such as North America (350 kg) and Western Europe (160 kg). Prospects for growth in demand seem possible, although this will be influenced by the rate of domestic economic growth, the literacy rate and the general development of the previously disadvantaged population as post apartheid economic, political and social reforms take place.

International demand prospects for pulp and paper appear strong, although much of the growth is dependent upon the performance of major potential developing country markets – in particular China and, to a lesser extent, India. Prospects for significant further demand growth in traditional developed country markets in Europe and North America are more limited.

Future fibre supply

Probably the prime and most obvious factor limiting South Africa's ability to respond to any increasing demand for forest products is the future availability of fibrous raw material. Five possible sources of future increased fibre supply exist:

- Improvements in yield from current plantations
- An increase in the afforested area
- Domestic processing of exported unprocessed fibre
- Increased use of recycled fibre or the use of alternative fibre sources
- Use of imported fibre from the wider Southern Africa region

Improved fibre yields from existing plantations are clearly possible, particularly considering the low yields currently realised in the plantations of the former homelands. But at most this could improve overall fibre availability by about 50% over a thirty year period. This represents an annual equivalent increase in fibre availability of about 1.3% – significantly lower than the rates of growth achieved by the pulp and paper industry in recent decades. In addition, some yield improving technologies – such as genetically modified material – may be unavailable to industry given market environmental demands manifested through certification requirements (see below).

Opportunities for further afforestation are limited. As noted above, South Africa is an essentially arid country with limited afforestation potential. This limiting factor is further complicated by the fact that areas of greatest remaining afforestation potential are also areas: of great importance for water resources with high environmental significance and high demand from alternative agricultural land uses.

Current indications are that future afforestation potential could be limited to a maximum of 300,000 hectares – representing an overall increase of just 17% of South Africa's afforested area. Much of this area lies in communally owned areas, particularly in the Eastern Cape. The companies' ability to establish resources in these areas will thus depend upon their ability to establish effective partnerships with those communities and to offer them tangible benefits which exceed those currently enjoyed. This is a challenge to the companies but a real opportunity to widen participation in the industry and to spread the benefits of a successful industry more widely amongst some of South Africa's poorest people.

Significant expansion based on the estimated 1.5 million tons of woodchips annually currently exported through KwaZulu-Natal is possible. International prices obtained for woodchips are currently high and it therefore makes economic sense to export rather than to add value to this raw material resource in South Africa. Should the supply/demand and pricing dynamics change it could become feasible to establish local pulping capacity to exploit these value-adding opportunities.

Recycling of paper offers some opportunities to reduce the industry's demand for new wood-based fibre. Currently some 38% of paper in South Africa is recycled providing around 27% of the material input used by the industry. Increased rates of recycling and recovery are possible but the extent of feasible recycling is constrained by the cost of collection and transport relative to the current cost of wood based fibre. Furthermore, technological limits exist to the percentage of recycled paper which can be employed in making new paper. New alterative fibre sources – in addition to bagasse which already provides around 5% of furnish for the pulp and paper industry – such as hemp, kenaf and straw are possibilities. Their success will ultimately depend not only on their technical properties but ultimately their costs relative to wood based fibre. For the short to medium term this avenue does not seem to offer any significant prospects for growth and development.

One of the key challenges for new players in the forestry private sector is to find effective roles in managing areas such as these aloe woodlands near Mjamkhulu

The greater Southern African region, most notably Mozambique, Malawi and Zimbabwe, also provide possible solutions to the anticipated shortage of fibrous raw material in South Africa. Industry members have shown significant interest in developing forest resources in Mozambique, where potential seems to be the highest. Forest resources in Zimbabwe and Malawi could also prove viable. Ventures into these Southern African countries are likely to entail the establishment and management of plantation forests from which logs will be imported to nearby South African mills. Over the long term, and depending on the location of such ventures, processing operations could be established in these countries.

Privatisation – the next few years

The forest restructuring transactions to date have had to take place in a climate of difficult market circumstances and an ever-developing and complex rights-based land reform programme. The rationale behind grouping DWAF- and SAFCOL-owned plantations within forest packages remains appropriate if government is to achieve its objective of transferring its commercial forest operations to the private sector and reducing the high costs to the State of managing commercial assets. However the downside also remains - the high transaction costs due to the complexity of the process. The DWAF plantations are in general less attractive to investors than the SAFCOL plantations since they are generally less well maintained and often located in less stable and secure tenure environments. The long process continues to attract criticism of government from some potential investors.

The forest lease is a complicated document, and this is to be expected as it tries to satisfy both the need for security in investment on the part of the private sector while accommodating communities expressing intent to reclaim land that was once theirs. The inclusion of communities as the third party in lease agreements – along with government and the private investor - has meant accommodating uncertainty over whether communities would accept a land rental in lieu of re-occupying state forest land, or whether they might demand full return of the land, to which, legally, they may be entitled. The next few years will see continued debate, and a range of new actors and land-use arrangements stemming from the privatisation process.

The cost of doing business

The rapid development of South Africa's forest industry has in large part been based upon the country's ability to produce high quality wood fibre cheaply. How far this will remain the case in the future will depend upon a number of factors. In terms of the existing forest estate the industry has some measure of protection from rising costs by employing the mechanism of outsourcing and contracting out services. But labour still remains relatively expensive in South Africa compared to many poorer developing countries and these mechanisms do not provide complete insulation from rising costs, including those associated with complying with new policies and legislation on employment practices, skills development, land ownership, tenure security and water use. Meeting these will to some extent increase the cost of doing business in South Africa in a highly competitive cost-sensitive industry.

Foreign direct investment (FDI) in the forestry sector has not been within the top ten sectors in South Africa over the last half-decade, but this may change if international investors are found for the remaining forestry packages to be leased by government. FDI into the forestry sector will face the same constraints as those faced by other sectors, including:

- General concerns about emerging markets
- Perceived political and economic uncertainty about South Africa
- Decreased investment from South East Asian investors due to economic problems domestically
- Exchange rate volatility in South Africa

Emergence of forestry contractors

The trend towards use of contractors rather than a permanent workforce in the forest industry is increasing. Harvesting, silviculture, transport, social and ancillary services are being contracted out. For some, the resulting economic competition may generate a 'race to the bottom' with declining wages, health and safety, increasing poverty and exploitation – where, under contract, the same people working in the same uniforms, doing the same jobs receive less money. Increasing 'casualisation' of labour may produce contract workers with little loyalty or connection to the contractor.

Alienated labour in South Africa uses arson as a standard method for demonstrating grievances. Even policy/legislation interventions designed to improve equity and livelihoods can have perverse effects where workers and communities are weakly organised and within an international economic environment of deregulation and fierce competition. For example, there is some evidence that new legislation – on labour rights, conditions of employment and tenure – has contributed to the rush of large farmers and forestry companies to shed permanent workers and outsource labour to competing private contractors with potentially negative social consequences. Yet this local trend must be considered in the context of South African companies seeking to be globally competitive.

There are opportunities, as well as threats, for livelihood-supporting forestry in the trend towards contracting and outsourcing. But major efforts are needed to develop information quality, accessibility and flow, and to enable a major programme of human resource development amongst contractors. The contracting sub-sector is not that well understood and researched apart from a handful of studies. What is known, however, is that the size of contractor firms is gradually growing, and that training is becoming a pressing need, not only technically but also in terms of business management. The management of contractors requires skilled regulators, adequate legal frameworks and effective monitoring systems. Current capacity in all these areas is extremely limited.

Trends in small-scale sawmilling

The small-scale sawmilling sub-sector consists of two broad types of miller. Firstly, there are the formal businesses, each with a number of permanent and casual employees, and owning its own limited milling and transport infrastructure. These businesses earn an annual average turnover of half a million Rand, and contribute significantly to meeting the demand of downstream processors for industrial timber as well as supplying the regional markets with building timber and final products such as pallets. Secondly, there are micro-millers who depend solely on short-term contracts for their livelihoods. Micro-millers can earn less that R50,000 per annum net profit on their operations, find it extremely difficult to source credit because of a lack of collateral, and sink their reserves into maintaining outdated equipment rather then investing in upgraded machinery.

Both types of small-scale miller, however, face similar issues. State forest restructuring poses an uncertain future as far as guaranteed access to timber contracts is concerned, and there is no broad-based representation of small millers through a sawmilling association. Even if such an association were to exist, it is unlikely that it would be able to adequately represent the issues and needs of such a broad membership. As with contracting in the forest industry, information flows to and amongst millers are weak. Levels of understanding about applicable labour and other bodies of legislation are highly variable, and ability to comply with minimum legal requirements is likewise variable, tending to weak. The next few years may see larger, more secure and profitable operations edging micro-scale millers out of business as bidding for contracts becomes more competitive.

Investment decisions of major companies

The last thirty years has seen South Africa's industry take an increasingly international perspective, particularly the pulp and paper sector, which is its largest most dynamic component with probably the greatest prospects for future growth. A key element of this growing internationalism is the purchase of fibre resources and processing capacity in other countries. It is fair to say that while both Mondi and Sappi remain South African, their business interests are now global with South African activities being only a part of a much wider picture of investment decisions. Inevitably, such decisions will direct capital towards those parts of the world where the likely returns are greatest, and it is in this context that the likely increasing costs of doing business in South Africa for these companies must be judged.

6.2 Certification – challenges for business to meet emerging sustainability issues

Waiting for the next wave of certification pressure

The majority of South African plantations are now certified – apparent testament to the high quality of management by the major forestry companies. Certification has enabled these companies to talk with international friends, national stakeholders, and even the local neighbours, without quite so much blood-letting as in the past. Executives and environmental officers of the big forestry companies, together with some mill managers have made considerable capital out of the market positioning, packaging and branding advantages of certification. But most of their staff, and the bulk of the industry, are still not engaged.

The large South African forestry dog is being wagged by a tiny consumer tail – since the only important market for certified wood products thus far is the DIY retail market in the UK. There are ripples in the US (for example, Global Forest Products sees FSC as vital for accessing its US markets), but there is no sign yet of a major second wave of certification pressure.

Handling the 'social can of worms'

Whilst certification was not originally designed to deal with social issues at the forefront, it now needs to respond to them and help deliver positive social impacts if it is to be an effective tool for better forestry. However, the forest sector cannot alone carry the can for structural problems in society and the economy – it cannot alone resolve social issues. But it can and must contribute to their resolution if it is going to retain a place in land use and development in South Africa.

One of the major problems is the vast difference in interests, and power to pursue those interests, between different groups. Yet there is no means to determine the legitimacy of those interests. What weight should the desire of forest management to contract out the spiralling costs of a permanent labour force carry against the desire of unions to maintain the rights of workers with permanent jobs and the expectation of improved housing and social benefits? What weight should the question of the international competitiveness of South African wood products and the making of

profits for shareholders carry with regard to the question of local livelihoods in poor rural areas? Certification, ultimately, is treading a fine line between being a market-based instrument, which contributes to environmentally sustainable and socially responsible forestry, and being seen as a panacea for all ills. If certification falls into the 'panacea trap' it will be at the expense of its effectiveness as a market-based instrument.

Developing national standards for sustainable forest management

The 1998 National Forest Act prescribes the development of principles, criteria, indicators and minimum standards for sustainable forest management. The process of developing these standards is currently underway. The forest industry is being closely consulted in the process of developing these standards – and certification provides the major reason why. However, the potential application of standards for market-led certification is rather different from their use as minimum standards enforced through compulsory regulation. A third possible use is for monitoring performance at a national (or regional) level. The near future will reveal whether these three potential applications bring contradictions and need three different types of standards.

The large companies consider that the existing body of legislation covering health and safety practices in working environments, together with in-house company guidelines and practices, will be generally sufficient to enable them to meet whatever minimum requirements will be articulated by the standards. However, as is the case in most standards processes across the world, the social issues once again are the most difficult to address satisfactorily. This is partly because it generally brings new players into the process, and partly because it is politically and technically more challenging. Given the wider context of land claims, labour legislation changes, outsourcing and the explicit requirement to redress previously disadvantaged groups, it is vital that these social issues are addressed – and be seen to be addressed – fully and explicitly in the standards development process.

Drawing attention to land use questions

It is not clear that the intentions behind certification and the practices it promotes are well understood outside of the forest sector itself, and there is the potential for certification to contribute more to the debate around optimal land uses. The privatisation process has revealed some concerns about the efficacy and consistency of the certification procedures in relation to broader land use questions. For example the sale of a portion of SAFCOL forests adjacent to the St Lucia wetlands, an international World Heritage site, revealed that some certified plantations were located in an area clearly unsuitable for forestry and also damaging to the wetland system. Similar problems with certified plantations were revealed in areas being privatised in other parts of the country. These incidents have raised concern about the rigour and consistency of the certification procedures, and require further investigation.

Forestry businesses cannot alone solve the challenges of local development and sustainability. But they can and must contribute if they are to retain a place in land use and development in South Africa

The interest in certification has come at a time when national debate and studies are taking place over whether land uses other than forestry would, in some places, be more appropriate, given national and local concerns for water management, employment generation and local development.

6.3 Outgrowing and partnerships – challenges for improving livelihoods

The outgrower schemes have significantly built on the asset base – natural, social human, financial and physical capital – of rural livelihoods but a number of challenges remain.

Natural capital – growing assets and environmental risks

Households have been assisted to acquire new land under sale agreements of state assets – but there may be difficulties ahead for community-wide partnership approaches in these areas because of problems around ownership, responsibility and distribution of benefits. Whilst that is no apparent squeeze on the availability of land for arable crops, and households are increasingly

substituting trees for cattle as a form of savings, the use of grazing land has caused conflict between growers and non-growers.

It can be argued that the companies have passed on considerable environmental risks to the outgrowers. For example, growers report depleted springs, groundwater and wetland in some areas. These issues pose a challenge to the potential for forestry partnerships in the Eastern Cape. Conversion of relatively unproductive, degraded communal lands to forestry could generate new livelihoods and at the same time protect the soil from erosion if the right species are planted on the right soil types. However, if deals involving afforestation proceed without full consideration of the environmental risks, potential negative impacts include:

- Increased grazing pressure and degradation on the areas of remaining lands
- Spread of invasive alien vegetation – with consequent loss of productive land
- Lowering of water tables and stream flow if afforestation management is poor and/or if aliens species spread
- Reduced biodiversity if afforestation management is poor and/or if aliens species spread

Furthermore, where Eastern Cape communities are making a reasonable profit by clearing invasive wattle from waterways under a government's Working for Water scheme, there is some concern that this source of fuelwood and fibre is not being replaced with a long term sustainable alternative. This may lead to further pressure on the remaining native vegetation, with consequent degradation and erosion.

Social capital – generating bargaining power

Whilst some capacity in growers associations has been built, associations are weak, used mainly for administration purposes and cannot generally negotiate for better terms of contract. Outgrower associations have been unable to negotiate with companies for better terms of contract (for example bigger advance payments) or relative advantages over other sectors in the eucalypt industry (better prices from the mills, allocations of quotas between large and small growers).

Land rights have been secured within the communal tenure system through outgrower schemes. However, by requiring signatures from Tribal Authorities, the schemes may entrench Tribal Authority power, occasionally to the detriment of grower interests. And while loan advances allow very poor households to join as members – highly marginalised households (without land) cannot join the schemes.

Within company-community deals there is much work to be done to ensure sufficient clarity and joint ownership of decisions. The actors have not generally agreed on the goals of the deal and have not even effectively communicated their goals to one another. For example, the assumption that community

members strive only for financial gain needs to be treated with caution, since other aspects to livelihood security such as access to forest resources are often more important than financial capital, especially to women.

Although there have been some decision-making forums in the outgrower schemes, major decisions in both these schemes and community deals have been taken by technical specialists, with very little effective capacity development and weak participation by communities – the same problems that crippled communal agriculture during the homeland era.

Human capital – tackling poor skills and conditions

Silvicultural skills have been transferred on site – but business skills training has been informal and *ad hoc*. Individuals can easily grow trees and simultaneously seek employment – but there are a number of ways in which women are exploited in the schemes. Also, whilst loan advances enable labour deficient households to hire contracted labour, hired labour and contractors may receive extremely poor wages and may operate under unsafe and harsh conditions.

Physical and financial capital – the road to better prices and equity

Development of infrastructure has occurred in some rural areas through the schemes – access roads, input supply depots, weigh bridges. A significant percentage of rural credit has also been provided by the schemes in the areas where they operate. Trees are seen a form of household savings and informal collateral agreements do exist – however, many farmers fell early to escape interest accumulation or to meet emergencies, and informal collateral agreements between community members tend to be exploitative. And whilst the schemes provide secure markets, it is not in the companies interest to provide the highest prices possible and growers are excluded from owning shares in processing – the most profitable sector.

There is a notable contrast between the outgrower schemes and government-established community woodlots. Whereas the woodlots have cost a good deal of tax-payers' money, are inefficient and relatively unproductive in supporting relatively few, the outgrower schemes have cost the government nothing, and have been quite effective in making some highly marginalised people economically active. Nevertheless, whilst outgrower schemes have contributed to household income they have not yet, in themselves, taken households out of poverty.

Policy problems and empowerment opportunities

Looking towards the wide range of external policies, institutions and markets which affect company-community deals, there are also some key problems:

- *Dumping responsibility without building capacity*. 'Devolution to communities', or handing over risk to farmers, who may not yet be in a position to make informed decisions and trade-offs between long-term

sustainability and short-term gain is not likely to foster genuine partnerships or improve either forestry or livelihoods.

- *Mysterious or opaque government policy.* Information about the policies of DWAF, DLA and other departments on land use and reform, forest management and woodlot devolution, and business management and markets, is not yet reaching communities in the places where deals are being mooted.

- *Uncoordinated service provision.* Various agencies of national and local government are giving out conflicting signals, duplicating efforts and failing to develop the positive momentum that might come from collaborating more closely on e.g. upgrading infrastructure, stepping up law enforcement and training communities in managerial and entrepreneurial skills.

Much can be learned from the wattle industry, where small growers' access to profits from the processing sector has come about through share ownership in the tannin extract factories. This was made possible through space being opened by the SAWGU rather than through the ability of associations to negotiate better prices from the markets.

Principles for partnerships

Some possible principles for better partnerships present themselves, among which are the following:

- Recognise that different groups have very different legitimate perspectives, and that politics will always play a role.

- Get actors to engage with each other, to convey their perspectives and negotiate

- Allow ample room for disagreement and experimentation, i.e. treat company-community deals as learning processes.

- Commit to the partnership approach and process over a long period – for companies this means a strategic commitment to schemes and ventures as a commercial route (overcoming short term risk aversion caused e.g. by rises and falls in pulp markets).

- 'Nest' forestry programmes within broader contexts and programmes of community development.

- Develop a range of short, medium and long-term benefits, and of low, medium and high risk investment opportunities, to attract both cautious and bold partners.

- Develop clear responsibilities for managing environmental risk (e.g. who pays for water licenses) – spelled out in contracts.

The bargaining power of small growers needs a boost if livelihoods are really to be improved from outgrower schemes

● Ensure that the benefits/equity for communities and private sector partners are commensurate with their respective investments. Communities' investment of land that could have been used for other purposes should be included in this calculation. This is likely to mean that communities have a stake in processing and share in the profits of deals.

● Sustainable partnerships are based on sound business principles, not social responsibility.

6.4 Summary

Some growth in South Africa's forest industry seems likely. Most of this is likely to be in the pulp and paper sector, where production capacity is now almost fully utilised. The extent of that growth will almost certainly depend upon the industry's ability to extend the area afforested and to produce fibre at internationally competitive rates to feed the requirements of any new pulping and paper manufacturing capacity. Any future expansion in the afforested area will almost inevitably be focused on communally held land holdings, requiring the development of some form of partnership with those communities. The industry's ability to contain costs will depend upon its success in implementing new requirements regarding water, environmental management, social and labour factors, whilst trends towards outsourcing and contracting out seem likely to continue.

Certification has helped those whose plantation management was already good, and could afford it. These companies are now busy finding other ways to demonstrate their credentials as good managers. But there is little impact yet on the 'messy' social issues generated by these companies, and by all those forest

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enterprises that are not the biggest and the best. Indeed, certification has shored up the reputations of the biggest companies just as wider societal debates are promoting a larger number of smaller, communally based, producers and more equitable patterns of land and resource control. Concerns for the future revolve around these issues, and the impact of changed requirements for certification with respect to further afforestation – particularly in regard to genetically modified material. Another major challenge lies in the fact that certification has had no effect on all those forests that really need improving – the plethora of small planted forest patches and woodlots and the vast areas of indigenous woodlands.

Forestry alone cannot draw outgrower households and communities out of poverty. Indeed, it is notable that very few non-company players are involved in forest-based partnerships, although the state forest restructuring exercise may produce some more. Companies have in the main 'gone it alone', and only recently has government started to seriously tackle its role as a facilitating agent for commercial forestry to contribute to local economic development.

It is clear that, without actions to shape them, trends in South African forestry will not miraculously combine to produce a balance of economic efficiency, environmental sustainability and social empowerment. For this to be possible, a strong new vision for the sector is needed which can provide the basis for actions to meet key challenges. These challenges include:

- *Negotiating a new pattern of ownership*. It is increasingly evident that both market and social empowerment imperatives are pushing towards a pattern of ownership in forestry involving a greatly increased pool of medium and small-scale producers whilst the large corporate actors withdraw to a greater degree from land holding and become effective buyers and processors of the product. Whilst this pattern has been noted as desirable by many – and a number of policy developments of both government and private sector support it – further investigation, negotiation and spread of agreement is needed.

- *Balancing equity and efficiency*. Harnessing market mechanisms to join regulatory and informational instruments, for both improved competitiveness and empowerment objectives, remains a major task for which stronger support across a wide range of actors is needed.

- *'Putting forestry in its place'*. Changing circumstances have revealed that forestry is no longer the best land use in some locations where it has dominated in the past, whilst in other locations the claim of astute tree planting to be the optimal land use – for social, economic and environmental reasons – is very strong. Balancing forestry with other land uses/alternatives requires a greater degree of cross-sectoral agreement than currently prevails.

Shared vision is needed to generate sufficient investment and space for a range of responses to the above challenges. These responses need to be granted enough room for manoeuvre – with enough time and resources to try, to fail, to learn, to adapt and to succeed.

Options and next steps

How can the challenges of the next few years be met head-on? What options are there for companies, government, small growers, contractors, small-scale processors, and intermediary organisations to improve private sector forestry? This section brings together a set of options for each of these main players.

7.1 Companies – large and medium – and their associations

Companies should take social issues much more seriously than they have in the past and make progress at a range of levels that improve their relationships with other players.

1. *Step-wise systems for engaging with social issues*. Systems that allow for a process of ongoing company assessment and improvement should be modified to make step-wise improvements in the capability of companies to deal with social issues. Certification can feed into company learning only if internal systems make social objectives routine.

2. *Modified certification procedures to improve learning*. The certification process needs to be re-oriented to help forest companies become learning organisations – this should include better means of developing feedback, learning groups, events and materials based on certification experience. Companies already invite interested parties on audit inspections, but this approach can be examined for further improvement as a learning process over and above the assessment exercise.

3. *Criteria, loans and training for contractors*. Forest companies should continue to set, and further develop, criteria and standards for their relationships with contractors. Contractors should not be working in certified forests if they fall below criteria on wages, health and safety practices, and assessment procedures need to be made much more effective at engaging with these issues. Larger growers and companies might follow the lead of the sugar industry, in providing the impetus for the development of skills and capital accumulation for small-scale contracting enterprises. Provision of loans and start-up capital should be considered, along with relevant educational programmes for forest contractors, particularly on relevant legislation.

4. *Principles for partnerships*. Deals between companies and communities need to move towards becoming more effective 'partnerships of equals' if they are to have longevity, continued mutual benefit and potential as effective agents in a wider development process. Companies' own experiences reveal a number of best practice principles (see section 6.3) which need further development and widespread adoption.

5. *Practical improvements in outgrowing*. Key developments needed to improve outgrower schemes include:
   - Companies should continue to pursue a focus on careful consideration of *site suitability*, distance from mills and condition of access roads.
   - *Intercropping* in the first two years of forest growth should be supported by all forest companies.
   - Comprehensive computer *records* should be kept of yields, input costs, contracting costs, and net profits of individual growers in each area.
   - Formalise *business skills training* for growers acquiring lump sums and contractors. The sugar industry may offer facilities for business skills development. Tax rebates to companies who provide training on behalf of national training institutions should also be considered.
   - Develop *gender sensitive policies* to cater for women growers (approximately 80% of scheme members are women). Ways in which this can be achieved include employment of women foresters, assisting women to open bank accounts in their own names, women group meetings (prior to planting in new areas), and inserting inheritance clauses to protect widows.

6. *Equity and revenue sharing*. Economic empowerment of small growers is unlikely to occur unless they have a greater stake in the profits from their timber. Profits are made in processing rather than production and there is evidence that wood prices are suppressed by the monopoly that pulp companies hold on the market. Share ownership along the lines of SAWGU ownership in tannin extract plants is a way of addressing this situation. Another method is to use a method of revenue sharing in determining the price formulae for timber. By this method the profit, and risk, is distributed in an agreed proportion between producers and processor.

7.2 Government

Government agencies should take the lead in assessing and attempting to balance the objectives and practices of the other players. In the context of current trends, new steps should be taken to consolidate and spread a vision of the future shape of forestry in South Africa.

7. *'Visioning' and learning for forestry's future*. Government has a lead role here in convening vision-building fora. Developing and spreading a vision of forestry's future is particularly needed amongst medium and small companies, local government and civil society. Only once the vision for forestry is

Government will continue to have a vital role in securing equitable access and title to forest resources

sufficiently widely-held will there be clear and shared objectives for use of the key instruments described below – which can then make real progress.

8. *Clear inter-agency co-ordination mechanisms.* For both local level and national cooperation and coordination between DWAF, DLA and other departments, more effective formal cross-departmental mechanisms, and more transparency about informal inter-agency negotiations, are needed.

9. *Human resource development strategy for forest contractors.* This could be linked with the mandate enshrined in the Skills Development Act. There is also a need for systematic information collection on forestry contracting. The new Contractor Upliftment Programme will hopefully assist with these issues.

10. *Code of practice and dispute resolution on social issues.* In developing national standards, particular attention is needed to engage and negotiate with all key stakeholders on a set of standards and code of practice governing social aspects of industrial forestry operations. Government should facilitate efficient resolution of difficult social issues associated with company relationships with other players, where it has the mandate to do so.

11. *Assessing progress to better forest management.* Some in the forestry debate need to recognise that there is more to life than certification. Other tools and activities may be more effective at achieving some of the objectives currently loaded onto certification. Approaches for being realistic about the 'place' of certification and other tools - and for taking the steps needed for better forestry – need wider currency.

12. *Forest permits and licensing implementation.* The principles underlying the DWAF forest permit system and water licensing are not widely disputed by foresters. However, there is still difficulty in proving stream flow impacts, particularly impacts on dry season flow, although there are rigorous findings showing reduced dry season flows from forest regrowth. Slow implementation of the permit system has resulted in standstill of operations and severely effected some small-scale contractors. Blanket community permits should provide part of the solution, and implementation of the new water licensing proposals should proceed with due regard for the consequences of delays.

13. *Consumptive water use systems and tradeable permits.* Whilst the forestry private sector understands that water needs to be allocated by society to its most highly valued use, some companies feel that a focus on consumptive use and tradeable water use permits would provide more of an incentive than cumbersome regulations based on stream-flow reduction assessments. Government, in collaboration with all stakeholders in the industry, needs to find the most appropriate mix of regulatory and market-based instruments that will best and most cost effectively achieve sustainable development of the forestry industry.

14. *Increased tenure security for growers.* Growers suffer from relatively insecure tenure arrangements, they cannot use their forests for collateral, and fixed improvements such as fencing are unprotected. Government policy should assist growers to upgrade ownership status and speed up land claims processes and tenure reforms in communal areas. Overarching policies to protect arable land for high value crops, possibly developing the comparative advantages of different regions, should also be considered.

7.3 Small growers and their associations

Just as companies should develop and adopt principles for partnerships, so too should small growers, and their associations. These associations themselves need a major boost.

15. *Capacity of grower co-operatives and associations.* Ongoing capacity building of grower organisations is needed and umbrella bodies should be created to represent local associations. The co-operative model presently engaged by NCT may provide a better vehicle for communication, skills transfer and mutual support than some grower associations, whose current problems of inefficiency tend to members' profits.

16. *Grower representation at national level.* Political empowerment is unlikely to occur unless grower associations progress beyond their administrative function (conflict resolution and communication), and are incorporated into national forest owners' associations with real representative status. Substantive representation of small-growers on executive decision-making bodies of forest owners associations is then needed (25% of voting rights would appear to be an appropriate initial minimum).

If a few key barriers can be removed, woodlands and plantations can contribute much more to local livelihoods

7.4 Contractors and small-scale processors – and their associations

Contractors and small-scale processors are the most poorly-integrated players in the sector. Options focus on stronger contracts, improved conditions and capacity development.

17. *Contracts based on legislation and standards*. Whilst many contractors may currently be in breach of various labour statutes, this does not paint the whole picture. Some contractors are better able to meet legal obligations and, with some support, can be bound by agreement to adhere to labour legislation, standards and FSC principles. Breach of agreement would lead to suspension and cancellation of the contract, with appropriate penalty clauses.

18. *Improved contractor conditions and capacity*. Small and medium forest contractors should ideally improve wage levels, but are unlikely to do so in the absence of more lucrative contracts. Such contracts will depend on the skills and bargaining power of contractors themselves. Contracting companies above a certain size are now obliged to pay levies into capacity development schemes. As yet the scale and direction of the impact of these levies, and other measures which affect contractors, is poorly understood and should be investigated.

19. *Contractor-grower-company partnerships*. As for growers, contractor co-operatives offer the potential means to share experience and increase capability to secure better deals in contracting. Should companies decide to divest from land ownership to a greater degree then the prospects for

A bright future awaits those who can create partnerships for responsible forestry enterprise

contractors to expand into multi-functional district-level forest management for companies increases. Relationships between growers, companies and contractors would then best be served through development of joint decision-making approaches.

7.5 Certifiers and development agents

Roles of third party certifiers and intermediary development NGOs continue to be critical. Their services can be further focused.

20. *Training of auditors*. Certification audit team leaders should be foresters, well trained in audit practice, with some international experience. All team members should be able to prove financial independence from the companies being audited, personal integrity and good interpersonal communication skills. Training of auditors should include: specific auditing skills; structured learning about FSC principles and criteria, associated standards and their interpretation; and participation in audits as a trainee with active mentoring by the team leader.

21. *Fair trade principles and simplified group certification*. Installing stronger notions of equity and fair trade principles in certification is needed to develop a fairer distribution of costs and benefits in the supply chain.

Systems of 'due diligence' should be developed on social and environmental issues just as in such fields as food hygiene and health. Group certification systems should be simplified, the administration cut to a minimum and local auditors used to reduce inspection costs.

22. *Improved services from development agents*. Development agents on contract to the companies and government (such as Lima) can be well placed to provide grower groups and communities a wider range of development initiatives. Possible improvements are agricultural supply depots with extension support for other crops and fruit trees, inter-cropping trees with legumes, labour based road construction, and the development of micro contractors. These rural development agents would also be better able to help formalise the informal collateral arrangements along specific guidelines that give more protection to growers, including delay in repayment until the forest is mature, and regulation of interest rates to acceptable levels.

7.6 Partnerships between players (local government, companies, NGOs, banks)

Some options for improved forestry and livelihoods – indeed amongst the most crucial options – require a partnership approach between players from the outset.

23. *A forum on social practice in forestry*. To go beyond minimum standards and develop better social practice requires a forum that can lower the cost of acquiring information and serve as an interface with stakeholders. Initiatives in other countries and internationally should also be drawn on with regard to the impacts that globalisation and outsourcing are having on forestry workers and local livelihoods. Evidence suggests that the livelihood status of many forest workers and other local forest stakeholders has declined over the last ten years – so privatisation, certification and partnerships need to play their part in transforming this situation. Thus, such a forum should grapple with wider issues such as the setting of minimum wages and tenure security in the sector.

24. *Developing affected parties into real stakeholders*. If stakeholder consultation is to be a genuine two-way process – concerted efforts to understand the implications of power differences between stakeholders and derive appropriate procedures are needed. Forestry stakeholders need to be developed before they can be meaningfully consulted. Forest labour has little muscle, and neighbouring communities have even less. Certification and partnership processes have to acknowledge these realities and find ways to stimulate NGOs and others to work in communities adjacent to forests, to identify and develop real stakeholder groups and projects. Small growers in particular need considerable support – for grower associations, regional cooperatives and marketing arrangements.

25 *Joint decision-making and partnership brokering agencies*. More effective joint goal-setting and prioritising of actions are needed in all deal arrangements. Agencies are needed which can emphasise transparency and communication of information to all role players, and cooperation with actors outside of the immediate forestry deal. The combined efforts of many partners are needed, at both national and local levels, in such agencies providing information, guidance and brokering services. Roles include:

● Facilitate negotiation of joint ventures: identifying suitable areas for afforestation in rural communal areas, and developing guidelines and incentives, which encourage forestry companies to engage with rural communities and entrepreneurs
● Speed up processing of afforestation permits and land settlements
● Translate partnership and project documents into local languages
● Provide legal advice to communities
● Provide independent facilitators from the government, NGO's or consultants who can facilitate negotiations between companies and communities
● Lobby for infrastructural development
● Enable physical, social and economic analysis geared towards communities to be carried out, including Strategic Environmental Assessment processes
● Lever responsible forestry finance from local mechanisms (such as credit unions), national agencies (such as the Land Bank) and new international finance sources (such as from the Clean Development Mechanism).
● Partnership brokering agencies should make a particular focus on deals which promote: small-scale and medium scale forestry and processing; equitable and efficient contracting and outsourcing; and improved employment conditions in the forest industry.

7.7 Next steps

The twenty-five options above need to be chewed over, modified, fleshed out, prioritised and acted upon by the players highlighted. For this to be possible done the first step is to disseminate the findings of the studies summarised here, and actively install them in the minds of individuals and the memories of institutions. Circulation of this report should be followed up by activities such as briefings, face-to-face exchanges, preparation of information materials and learning events. A process of gathering feedback, modifying and developing the options, and prioritising them is then needed. We take the liberty here of calling on all those interested in the future of forestry and rural livelihoods in South Africa to offer their views, and to help push and pull the players into action.

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