

SOUTH AFRICA

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The South African economy 2007/08

Stable political and economic conditions have prevailed with growth in G.D.P. over the period coming in at almost 5.0 percent. Major growth sectors have been manufacturing, retail, construction and tourism, with mining having remained static and agriculture declining. Due to inter alia significant increase in oil prices and prices of agricultural commodities, inflation has escalated to just over 8.0 percent. During the year lending rates have increased by 2.0 percent to stand at 14,5 percent p.a., and the exchange rate (R to US\$) has remained stable at R7.06 to US\$1.00. Of major concern however is the widening trade deficit which is now in negative territory due to a surge in imports (currently 8.0 percent of G.D.P.) which is of concern.

Through the Governments expanded public works programme focussing on infrastructure development and its Accelerated and Shared Growth Initiative (ASGISA) as well as capital expenditure programmes associated with the 2010 Soccer World Cup which is to be held in South Africa, it is anticipated that over the next 3 years, G.D.P. growth could well exceed 6.0 percent. Unfortunately due to a slow down in global economic growth, the outlook for the S.A. Economy in terms of GDP growth has had to be reassessed, and it is doubted that 6 percent can or will be achieved. A target of 4 to 5 percent is considered realistic. Despite this the outlook still remains buoyant but it is anticipated that inflation and interest rates will remain high with a continuing trade deficit likely.

Generally, as a developing nation and being part of the emerging markets segment, South Africa's economic fundamentals are sound, and the economy is being well managed.

The forestry and forest products sector in relation to the economy

Given the growth dynamics inherent in the overall South African economy the Forest Sector has likewise experienced growth, although the strength of the Rand has impacted on exports so that growth in export volumes has not been matched by growth in value terms. To meet the demands of the growing domestic economy and to maintain its exports position some R7 billion is being invested to expand manufacturing capacity in the forest products sector. Unfortunately however investment and expansion in the Forestry sector has not kept pace, which is placing huge constraints on sector growth. Currently the demand for roundwood amounts to 23 million m³/p.a. whereas the forests can only supply 20 million m on a sustainable basis. The average net increase in planted area over the last 5 years has amounted to no more than 500 hectares p.a. leading to an ever widening supply deficit. To meet current and anticipated growth over the next 25 to 30 years we should be increasing our planted area by a minimum of 25,000 hectares p.a. South Africa therefore faces a serious timber availability outlook which is going to necessitate a dramatic escalation in imports in coming years. This unfavourable timber supply position is unfortunately being exacerbated by a noticeable increase in plantation losses being caused by fires and pest and diseases amongst others.

Whilst timber growers are therefore benefiting from considerably improved roundwood prices (up to 60 percent in instances) buyers or timber processors are being negatively impacted and the cost of wood is becoming a major threat to their competitiveness.

Emerging issues facing the industry

Paragraph (2) above alludes to the emerging issues of importance facing the Industry, namely timber supplies, fires, pest and disease and competitiveness.

Timber Supplies

Shortage of roundwood supplies into all market segments is a reality with Sawlogs being the major concern. Increased imports, improved yields, better utilisation of logs, lower plantation losses, and more, will all be necessary, but the critical ingredient regardless, has to be an increase in the rate of new afforestation. Although the target should be 25 000 hectares p.a. in reality given water, environmental, climatic and agricultural constraints, a target of 10 000 hectares p.a. is more realistic. The chances of achieving this are however not that good as South Africa's Water stress situation makes it extremely difficult to obtain authority to plant trees through the acquisition of mandatory afforestation water use licences. Forestry is the only dry-land cropping activity subject to such licensing requirements and the Industry is making huge efforts to change Governments perspectives on this. Broad misconceptions on Forestry's water use exist, despite scientific evidence and global experience dictating otherwise.

Through statutory Black Economic empowerment initiatives and a strong land reform and redistribution drive at least 40 percent of the current forestry estate is likely to be transferred to new ownership over the next 10 years. Whilst fully supported, the Industry is concerned that this could result in transferred land being converted out of Forestry to other uses and innovative mechanisms will have to be found to avoid such a situation arising.

Forest Fires

During 2007 the Industry experienced the worst fire season in its history, with close to 100 000 hectares of plantations being destroyed (8 percent of total), resulting in huge losses in output and placing additional strains on an already scare timber supply situation. Particularly seriously affected were Pine Sawlog plantations, due to which imports of sawn timber amounting to 500 000/p.a. are likely to occur.

Pest and Diseases

Amongst Pine plantations serious problems continue to exist due to infestations by the Sirex Woodwasp, which in certain Forestry areas has reached epidemic proportions (60 percent infestation levels). Biological control strategies, modelled on global best practices, have been implemented but to date success levels have been significantly lower than achieved in other countries. Fusarium or Pitch Canker is again becoming a big problem, with mortality arising there from for the first time being seen in older age class compartments of Pine.

Serious problems are also being encountered in stands of Eucalyptus throughout the country as a result of infestation by *Thaumastocoris peregrinus*. Cold tolerant *Euc. Nitens* is also being attacked by the Cossid Moth. During 2007 a new pest by the name of *Leptocybe invasa* arrived in S.A. which is considered a major threat to plantations of Eucalyptus. In all, 15 — 20 percent of the entire Forestry state is being impacted upon by various pests and diseases resulting in unaffordable timber losses. The Industry is negotiating with the Government for increase levels of support to help counteract these problems.

Competitiveness

For a long time the advantages of plantation forestry have enabled the Industry to remain globally competitive. With increasing timber shortages however, rapidly escalating timber prices are beginning to have an impact on competitiveness, leading to the Industry paying much greater attention to productivity both in terms of tree and human capital. It has also resulted in greater emphasis being placed on mechanisation of operations. This latter mentioned issue is being supported by the HIV/Aids epidemic currently being experienced in sub-Saharan Africa.

Other emerging issues

HIV/AIDS

- The HIV/Aids prevalence rate amongst the population ranges between 11 percent and 20 percent depending on age category, with infections having increased by almost 50 percent since the year 2000. 362,000 people are predicated to die from HEY during 2007, almost 1000 people per day. The epidemic is already having a catastrophic effect on the population. In the Forestry Industry the effect is particularly severe, given the rural nature of the business, with up to 40 percent of its labour force in areas being infected. The cost in lives, in human misery, in productivity and on competitiveness is huge. Major efforts by the Government and business are being made to combat the scourge although it is going to take super-human efforts by all to be successful. The cost to business of managing this situation is becoming massive.

Climate Change

- Only now is business beginning to take the issue of global warming seriously. Already some of the effects of this are being felt by the Forestry Industry with plantation yields dropping in specific areas and mortality as a result of fires and pests and diseases increasing. Extensive research on its impacts is now being undertaken by the Industry with attention being focussed on greater site: specie matching and the variation in genus and specie being planted, amongst others. Opportunities for tree planting activities under the C.D.M. are also being investigated.

Sustainable Forest Management-Forest Certification

- Even through 85 percent of South African Timber plantations are already certified under the FSC, much attention is now being put on making certification much more accessible to small plantation owners. Currently 20 000 plus small black emerging growers are being assisted in this regard through the development of a small grower FSC certification programme commonly referred to as the SLIMF programme (small and low intensity Managed Forests). As part of this, South Africa is currently developing its own National Certification Standard which it hopes to have in place in 2009.

Profile of Plantation Forestry

- South Africa is no exception when it comes to the profile of plantations and a lot needs to be done to improve this. Misunderstanding and misrepresentation of the facts about tree plantations is more often the norm than the exception. The industry is working hard to remedy this, and the Code for Planted Forests developed by the FAO in this regard is being of great assistance.

Business developments during the previous year

Forest Sector Transformation Charter

The most significant development during the last year has been the drafting of a Broad Based Black Economic Empowerment Transformation Charter by the Forest Sector. This is required in terms of the Broad Based Black Economic Empowerment Act and the Forest Sector Charter once published in the Government Gazette (probably July 2007) will become binding on all participants in the Industry, both growers and processors. The objectives of this Charter are to:

- promote meaningful participation of black people in the entire forestry value chain;
- achieve sustainable change in the racial and gender composition of ownership, management and control structures and in the skilled positions of existing and new forest enterprises;
- increase the extent to which black men and women, workers and cooperatives own and manage existing and new forest enterprises;

- use the forest industry as a catalyst for empowering rural and local black communities to access economic activities, land and infrastructure.

To achieve these objectives Industry participants will have to comply with a transformation scorecard which comprises 7 elements. Briefly these are:

Ownership

- 25 +1 percent of Industry to be owned by black people within a period of 10 years.

Management Control

- 50 percent of management (Board level, Executive and Senior) to be in control of black people within 10 years;

Employment Equity

- 75 percent to 80 percent of all employees, by grading, to be black people within 10 years;

Skills Development

- 4 percent of total annual payroll to be spent on skills development for black people within 10 years.

Preferential Procurement

- 70 percent of total procurement to be spent on black owned or black empowered business within 10 years.

Enterprise Development

- 3 percent of entities net profit after tax to be spent on enterprise development for black people and communities within 10 years;

Socio-Economic Development

- 1 percent of entities net profit after tax to be spent on socio-economic development activities for black people and communities within 10 years.

Whilst the abovementioned will place enormous responsibility on the Industry to achieve, and will come at a high cost, all Industry participants have accepted the challenge and have committed themselves to implementation. Of major concern, as already mentioned, is how to ensure that ownership transfer will not result in existing timber plantations being converted to other land uses. Even a small change could have significant implications for the future sustainability of the Industry, given the current and future timber supply situation.

Privatisation of State Forests

The Privatisation or restructuring of state forests has been ongoing for almost 9 years, and in the process has created considerable investment uncertainty. During 2006 the last, but biggest portion of State Forests was successfully bid for, but then stopped by the Competition Authorities. Resulting from this the Government then announced that it would retain ownership and control. More recently however the Government has changed its mind and is now proceeding with the sale. This has created confusion and uncertainty, particularly in the Sawlog markets, and could result in legal proceedings. As this remaining unsold portion contains the country's largest and most productive pine Sawlog plantation it is hoped that a successful outcome will be achieved.

Growth and Development Strategy for the Forest Sector

Flowing from a report prepared by the consulting firm Genesis Analytics in 2005, entitled "The Contribution, Cost and Development Opportunities of the Forestry, Timber and Pulp and Paper Industries in South Africa", the South African Department of Trade and Industry in collaboration with the Sector itself has recently completed a sector growth and development strategy which has been approved by the Cabinet. Resulting from this the Forest Sector has been classified as a major sector earmarked for growth through the country's recently released National Industrial Policy Action Plan.

SYNOPSIS OF INDUSTRY PROFILE - 2000 vs 2007

FORESTRY SECTOR

Criteria	Unit	2000	2007	Change
Planted area	Ha	1,330,944	1,281,519	(3.7%)
Roundwood Production	m ³ /p.a.	16,7 million	22,8 million	36.5%
Value of Roundwood Sales	Rand	2,6 billion	5.1 billion	96.2%
Contribution to Afric. G.D.P.	%	8,7%	7.4%	(15.0%)
Plantation losses (fires, Pests & Dis)	ha	23,000	82,000	256.5%

FOREST PRODUCTS SECTORS (all sectors excluding Paper)

Criteria	Unit	2000	2007	Change
No. of Plants	-	167	182	9.0%
Roundwood Intake	m ³	17,1 million	23,0 million	34.5%
Value of Sales	Rand	12,9 billion	15,7 billion	21.7%
Contribution to Mnfg. G.D.P.	%	3.6%	4.3%	19.4%
Foreign trade balance	Rand	4,6 billion	7,0 billion	52.2%

PULP, PAPER AND BOARD SECTOR

Criteria	Unit	2000	2007	Change
No. of Plants	-	23	22	(4,3%)
Pulp Capacity	tons	2,6 million	2,7 million	3,8%
Paper and Board Capacity	tons	2,6 million	3,0 million	15,3%
Per Capita consumption	kg	42,0	65,6	56,2%
Production				
- Pulp	tons	2,2 million	2,4 million	14,3%
- Paper and Board	tons	2,1 million	2,7 million	28,6%
Value of Exports	Rand	5,0 million	7,4 million	48,0%