

DAFF PARLIAMENTARY PORTFOLIO COMMITTEE PRESENTATION

Implementation of the B-BBEE Forestry
Sector Transformation Charter
November 2017



SLIDE AGENDA:

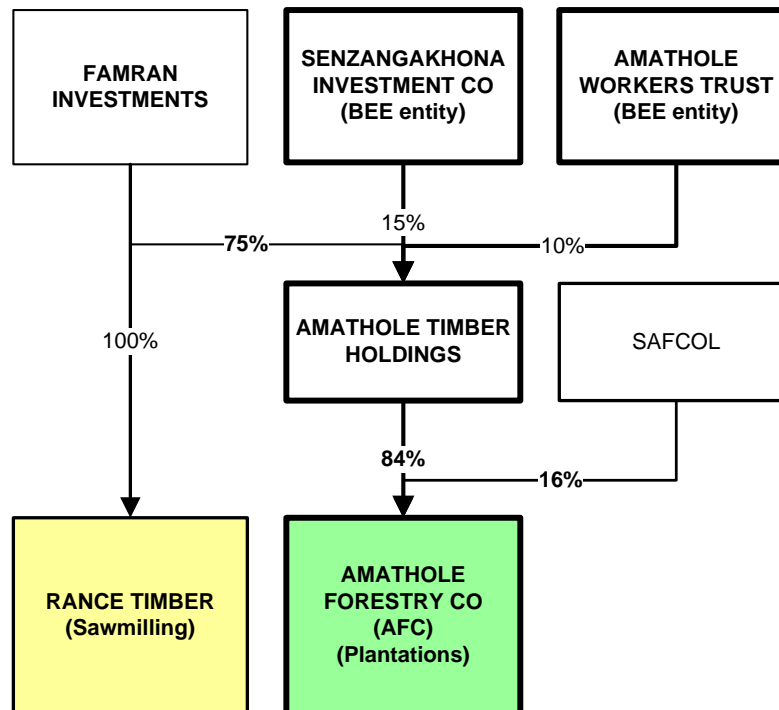
1. Social, economic and operational environment
2. B-BBEE Activities, Progress and Challenges
3. CSI Projects
4. Opportunities & Improvements

1. Amathole Forest Company (“AFC”)

- Amathole Forestry Company (Pty) Ltd (“AFC”) created by government to house the state’s forestry assets in the East Cape South Package (Stutterheim and Hogsback regions)
- Sold to a private consortium Amathole Timber Holdings (Pty) Ltd (“ATH”) in 2005 in terms of the SAFCOL/DAFF commercial forest restructuring
- AFC owns the plantations and leases the plantation land which consists of 14,543 ha of plantations.
- Lease commenced on 1 April 2005.

B-BBEE shareholding

- ATH shareholding is 25% BEE from inception 2005:



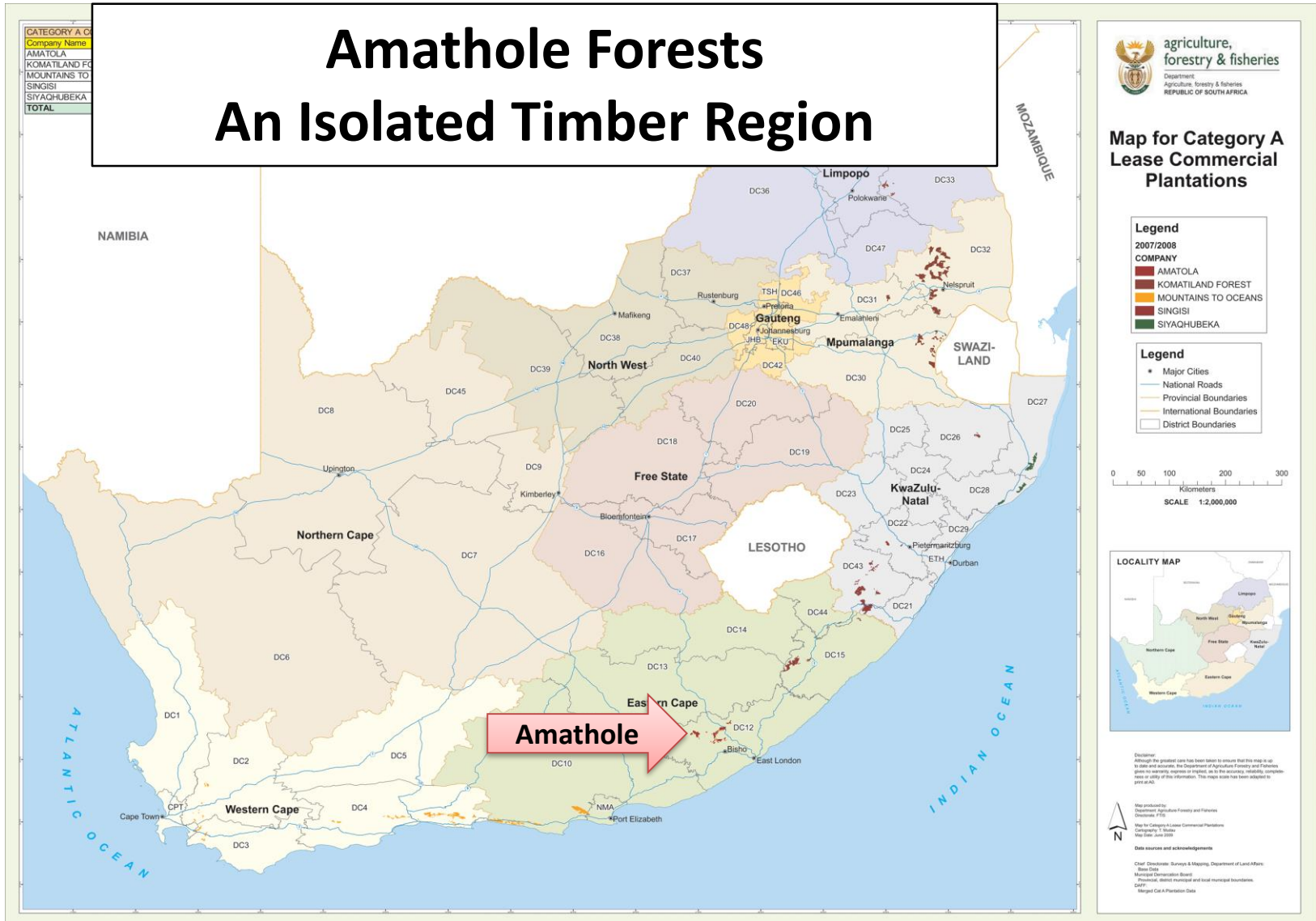
AFC B-BBEE LEVEL

- AFC is a level 3 contributor
- With a dedicated B-BBEE strategy and program

Amathole Forestry Company Proprietary Limited			
Issue Date:		15/12/2016	
Expiry Date :		14/12/2017	
Period of Validity:		12 Months	
Certificate Number :		A2A/GEN/15122016002	
		<i>Points</i>	
Ownership	19.31	Black Ownership	25.80 %
Management Control	2.25	Black Women Ownership	5.95 %
Employment Equity	5.78	Black Professional Service Provider	No
Skills Development	6.71	Value Adding Enterprise	Yes
Preferential Procurement	18.02	Beneficiary of Enterprise Development	No
Enterprise Development	15.00		
Socio Economic Development	8.00		
Total Points achieved	<u>75.07</u>		
Level Three		Company Registration	2000/022141/07
110%		VAT Registration Number	4790194908
Procurement Recognition Level			

Amathole Forests

An Isolated Timber Region



Amathole forest region economically depressed

- Amathole forest region is in the old Ciskei homeland
- Still suffers from the apartheid homeland era
- Economically depressed
- Unemployment 55%
- Most industries have closed in Dimbaza, Keiskammahoek and Seymour.
- 6 major timber factories have closed in the region in the past 20 years

Amathole forest region economic environment

- Isolated timber economy
- Lower profitability due to:
 - Poor economies of scale
 - Inferior markets for forest products
- High costs due to:
 - Steep terrain
 - Undeveloped infrastructure and poor roads
 - High seed load of alien vegetation
 - High fire prevention costs

Amathole forest region economically depressed



Keiskammahoek



Dimbaza



Dimbaza



Dimbaza

Amathole forest region

poor roads and infrastructure

- Timber industry is dependent on road access
- All district roads serving the Amathole timber industry are gravel roads in poor condition (except one)
- Transport of products in the rainy season to market is a major limitation
- EC government road budget cannot provide adequate roads
- AFC has to do district road maintenance at its own cost (2015-2017: R2,436,891)
- Group vehicle licences (2017: R1,529,279)

Amathole region poor road infrastructure

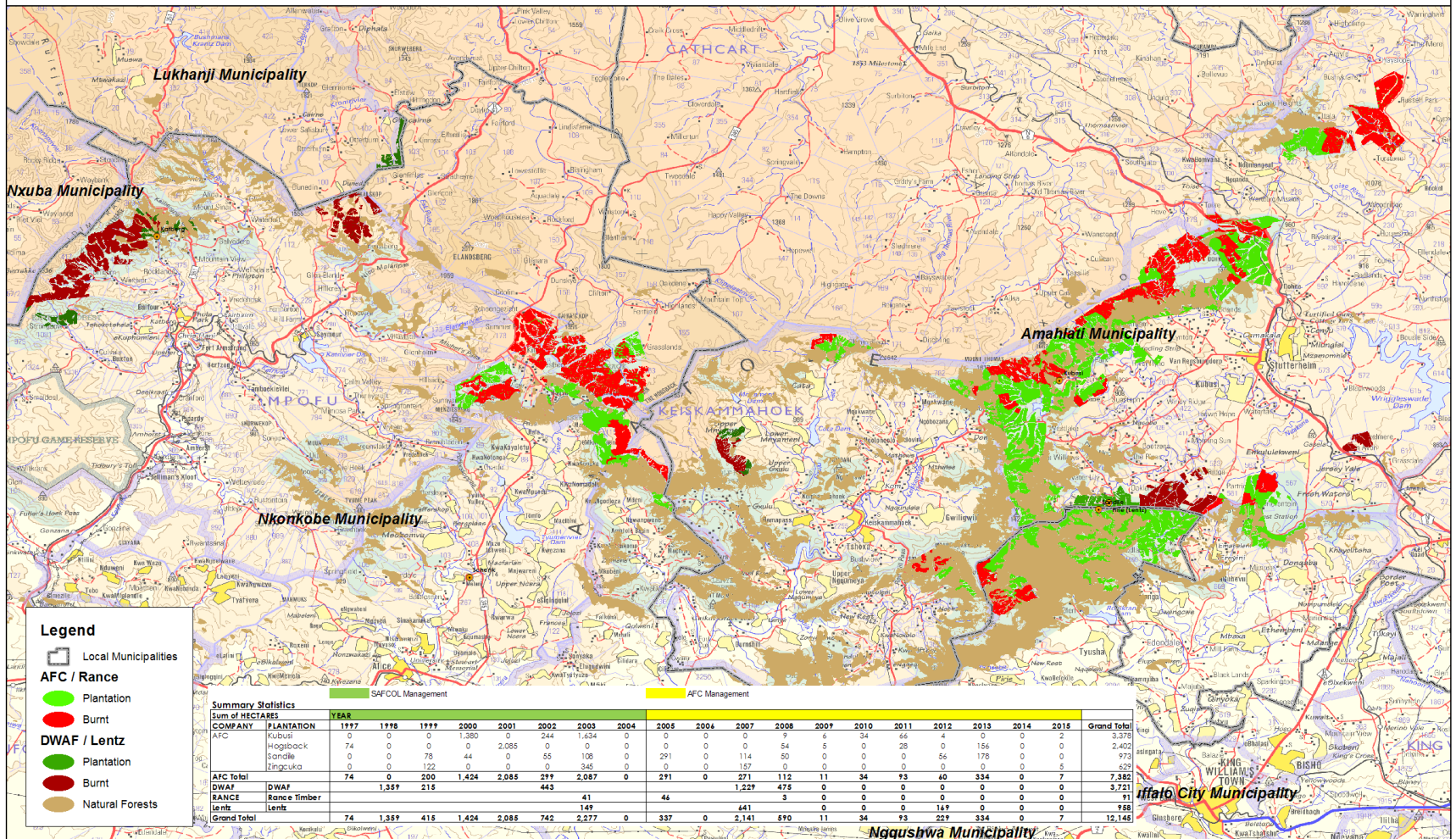


Serious fire threat

- **40% of AFC plantations were destroyed by fire 2001 - 2004**
- **Forest fires are a serious threat to the economy**
- **Destruction of economic growth and jobs**
- **AFC spent 17% / R13m of budget on fire prevention in 2017**
- **Average 60 – 80 fire fights per season**

Amathole Forestry Region, Plantation Destroyed by Fire : 1997 - 2015

0 2.5 5 10 Kilometers



Map Document: 16-1016-Athole Fire Overview 2015-2000-A3.indd
23/11/2015 - 08:48:01

Fire fighting capability provided by AFC

- AFC has largest fire fighting capability between Ugie and Knysna
- Funded solely by AFC:– 2017 R13m / 17% of budget
- AFC provides fire fighting service to wide community at no charge



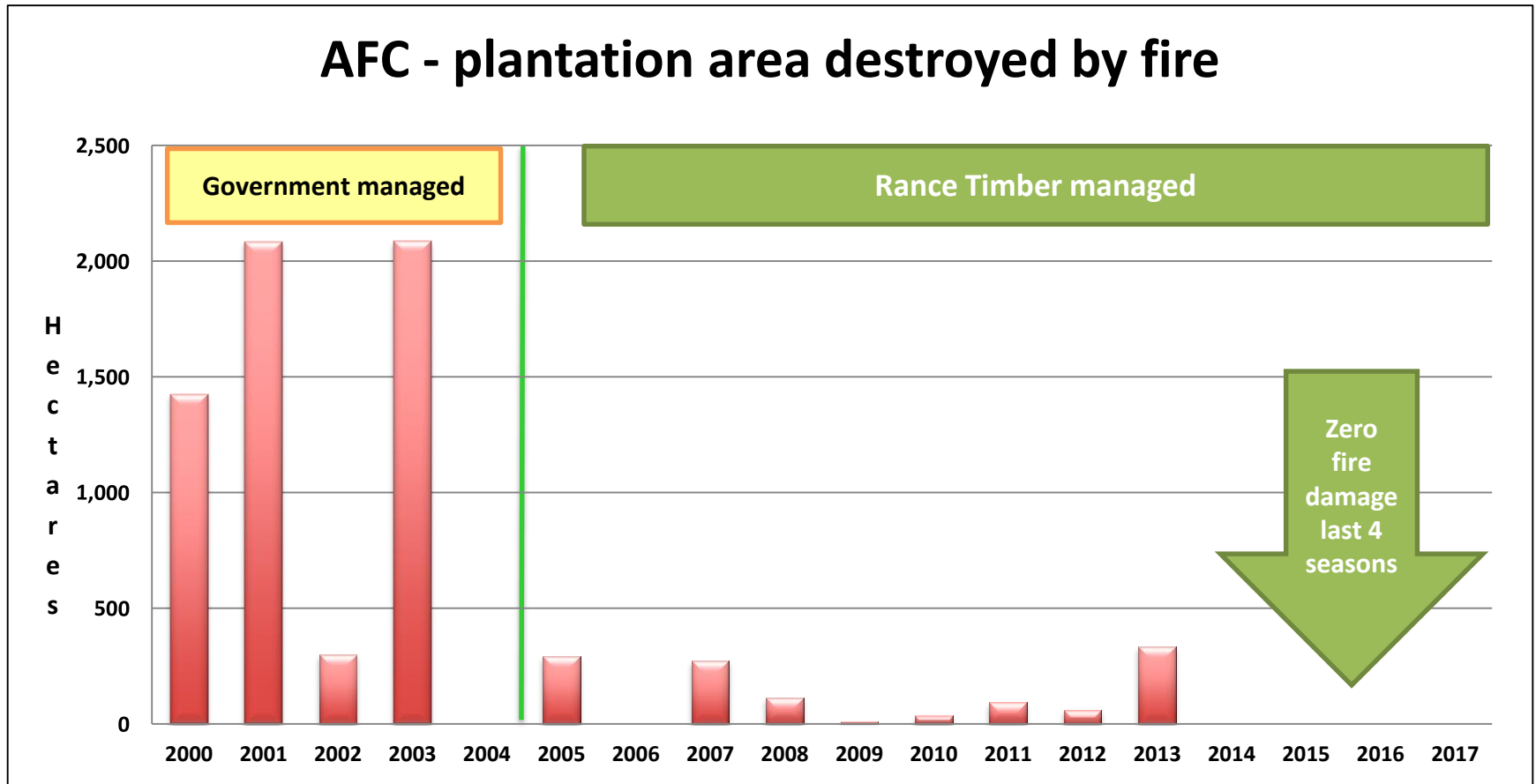
Fire fighting is a deadly business



AFC pilot
killed in crash
2012



AFC fire fighting success



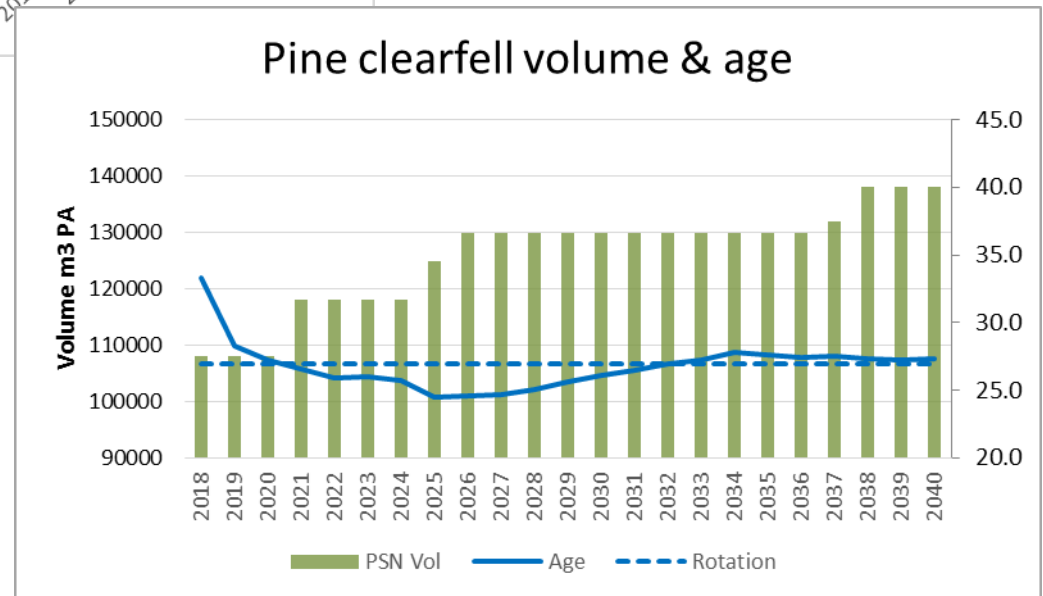
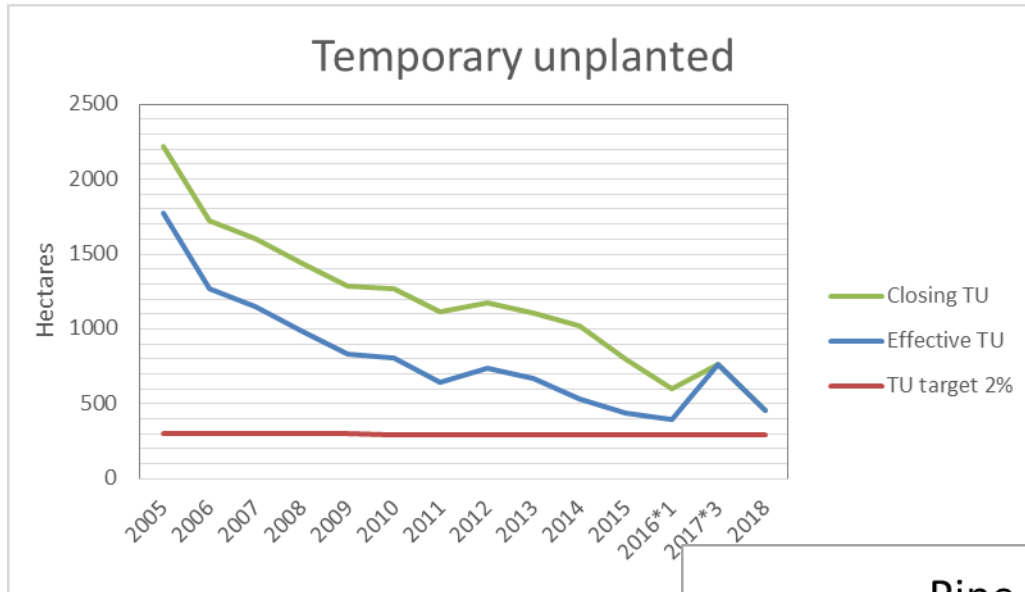
AFC mission

- AFC's mission is to grow high quality pine sawlogs
- Crop rotation of 27 years
- Sawlogs are processed in Rance Timber sawmills
- Isolated location means the group has to perform most operations in-house – silviculture, harvesting, transport, sawmilling, maintenance
- This business model creates a strong value chain multiplier
- Business model is labour intensive – Rance Timber group **employs 1400 people**
- The long crop rotation results in slow investment returns
- High risk from fires

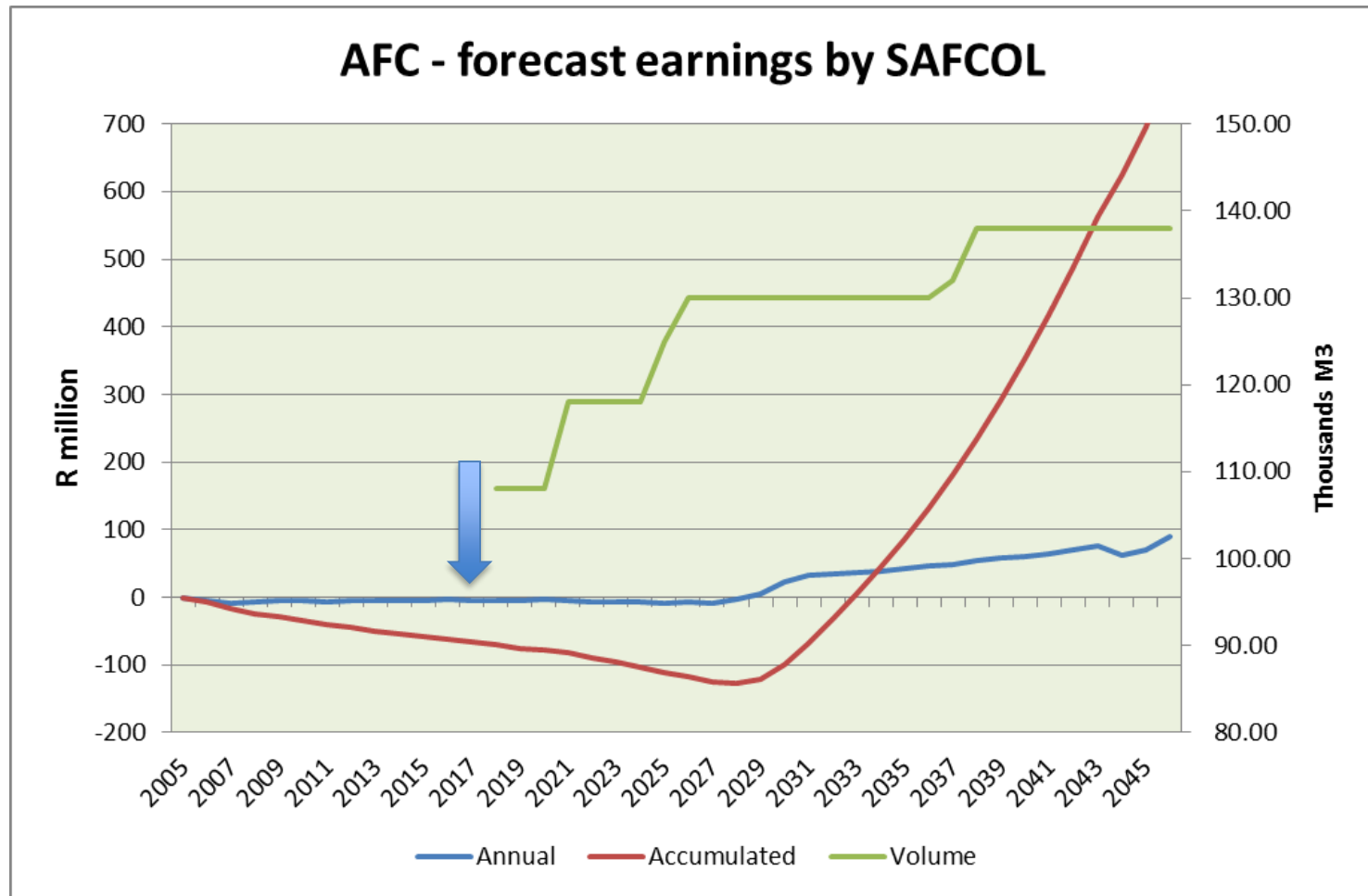
Group sawmills



AFC long term yield forecast



Sawlog regime – long crop and cash cycles



2. B-BBEE activities and progress and challenges

Transformation – significant progress

AFC BBBEE SCORECARD	
YEAR	LEVEL
2017	3
2016	4
2015	4
2014	6
2013	6
2012	8

ACTIVITIES AND PROGRESS

Ownership:

- SIC investor (15%) died 2010 and Famran purchased these shares
- New BEE shareholder Amathole Community Holdings (Pty) Ltd created for land claimants
- **Strategy to include land claimants as shareholders**
- Program supported by DRDLR
- Program will be completed when land claims in the Amathole region have been settled

Challenges:

- Slow pace of land claim settlement

ACTIVITIES AND PROGRESS

Management Control and Employment Equity:

- Focus on advancement and development of black employees
- With retention of critical skills

AA Employment					
2016/2017	AFC	Black	Black %	White	White %
No. employees	376	365	97%	11	3%
No. promotions	7	7	100%	0	0%
No. new appointment	93	93	100%	0	0%

Board composition:

- 3 white 2 black

ACTIVITIES AND PROGRESS

Management Control and Employment Equity:

- Compliant with Dept of Labour EE audits

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
	%	%	%	%	%	%	%	%	%	%	%
Top management											
Senior management	33			67							100
Professionally qualified specialists and mid-management	57			43							100
Skilled technical junior management, supervisors, foremen, and superintendents	76	9		11	2	2					100
Semi-skilled	87	3		1	8			1			100
Unskilled	88				11						100

ACTIVITIES AND PROGRESS

Employment Equity challenges

- Heavy labour of manual forestry work is more suitable for men
- Fire fighting is more suitable for men
- Disabled persons have limited opportunities
- Important to retain the experience of older white managers. Cannot “study experience”. Forestry is a variable environment with low margins and no room for mistakes.

ACTIVITIES AND PROGRESS

Skills Development:

- Focus on development of technical, management and supervisory skills of black employees

SKILLS DEVELOPMENT PROGRAMS 2017	Black Male	Black Female
No of Black Foresters/Qualified Supervisors developed through the AFC skills development program	7	1
Study assistance and bursaries	4	0
Forestry student internships	3	2

ACTIVITIES AND PROGRESS

Skills Development Challenges:

- Lack of funding from SETA
- New BBBEE codes weighted against:
 - Labour intensive employers
 - Employers with low profitability
(See below)
- Skills element high cost

ACTIVITIES AND PROGRESS

Enterprise and Supplier Development:

- Cata Community Plantations
 - Funding for plantation development
 - Fire protection, management and administration
 - 15 jobs created
 - Next phase in negotiations
- Sonjani Contractor
 - Emerging black contractor provided with training, equipment, guidance
 - Job creation
- Gertfontein farms
 - Operational support, fire protection and mentorship (young forester of the year)

ACTIVITIES AND PROGRESS

AFC supported projects – contractors and farmers:



ACTIVITIES AND PROGRESS

AFC supported projects: Cata plantations



ACTIVITIES AND PROGRESS

Supplier Development:

Preferential procurement program:

- Preferential procurement strategy implemented
- Close administrative support and monitoring of targets

Challenges:

- Scarcity of black owned suppliers
- Scarcity of black women suppliers
- Lack of opportunities for vendor development:
 - Weak rural economy,
 - Isolated forestry region

ACTIVITIES AND PROGRESS

Social and Economic Development:

- AFC's SED program is primarily focused on its surrounding communities through its clause 46 liaison structures
- AFC practices SED 83 rural communities. It uses the Clause 46 liaison structures for the SED program

Challenges to corporate social investment:

- Lack of profitability and funding

B-BBEE CHALLENGES

- Concerns that new codes are weighted against labour intensive businesses:
 - High rand cost of scoring skills points
 - Complicated procedures
 - Unrealistic targets for labour intensive businesses – difficult to achieve targets for manual labour-intensive business
 - Encourages mechanization and outsourcing to labour brokers and contractors
- New codes disadvantage for timber companies with a sawlog regime
 - Sawlog regimes have 25 – 30 year crop cycles with slow cashflow cycles, long periods of losses and short periods of profits. The scoring formulas penalize such businesses.
 - Inherent lower profitability of SA pine sawlog industry

B-BBEE FUTURE STRATEGY

- Future focus will be on:
 - Ownership development with land claimants
 - BEE board, management and supervisor development
 - Technical skills
 - BEE Supplier development
- ED and SED will be limited until crop and earnings cycles recover

3. SPECIFIC CSI PROJECTS

- Priority is given to projects that fall within the following categories:
 - Education
 - Basic services
 - Sports
 - Community development
 - Emergency relief

SPECIFIC CSI PROJECTS - examples

- **Education:**
- Forest Way Outdoor Centre
 - Christian youth development project focusing on outdoor education
 - AFC sponsors underprivileged community school camps in 2017 14 schools represented by 401 high school students were accommodated in this project
- Crabbush school classroom and office
 - 3 classrooms and a headmaster's office were provided by AFC
- International Forestry Students Association
 - Sponsorship and operational support for the IFSA conference in 2017 Fort Cox
- Siyabonga High School Matric Study Camps

SPECIFIC CSI PROJECTS - examples



Amakhuzeni



Siyabonga



Forest Way



Forest Way

SPECIFIC CSI PROJECTS - examples



Hala



Crabbush



Crabbush



Working for Wetlands



IFSA 2017

SPECIFIC CSI PROJECTS - examples



SPECIFIC CSI PROJECTS - examples

- **Basic services:**
 - Water supply
 - Firewood supply
 - Grazing
 - Maintenance of district roads
 - Maintenance of schools and community grounds
 - Cheap or free supply of forest products (eg poles and thatching)
 - Transport
 - Security
- **Sports:**
 - Various

SPECIFIC CSI PROJECTS - examples

- **Community Development:**
 - Construction, maintenance and upliftment to numerous community establishments (eg. Community Halls)
- **Emergency relief:**
 - Fire fighting
 - Assistance with stock theft
 - Accidents
 - Disaster relief

4. OTHER INFORMATION & CHALLENGES

Development issues:

- **Planting permits**
 - Lack of planting permits retards timber industry development
 - Need for closer consultation with timber companies
- **Poor district roads infrastructure**
 - Causing high costs and inefficiencies
 - Holding back development
- **Firefighting cost funded by private industry**
 - Heavy burden for private industry to carry this cost alone
 - Municipalities provide little support
 - Appeal to government for support
- **Funding and support for emerging black farmers**
 - More support and funding required from government in addition to private industry

OTHER INFORMATION

Development issues:

- **Category B Plantation production**
 - DAFF category B plantations in the region - 45% unplanted
 - Could be producing 100,000 m³ per annum of sawlogs
 - Supporting 800 jobs permanently in the value chain
 - Valuable opportunity for emerging black sawmillers and harvesting contractors



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