

Integration. Growth. Transformation.



**Amahlathi Emerging
Entrepreneurs Forum**

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WRITTEN COMMENTS ON EXPROPRIATION BILL (B16 – 2008)

**TO THE PORTFOLIO
COMMITTEE ON PUBLIC WORKS**

(NATIONAL ASSEMBLY)

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Introduction

Amahlathi Emerging Entrepreneurs Forum (Amahlathi) is a voluntary association of the previously disadvantaged forest entrepreneurs. The organisation has more than 20 000 members who rely on both timber and non timber forest products for their livelihoods. These are drawn from all major forest producing provinces – Limpopo; Mpumalanga; Kwa-Zulu Natal; Northern and Eastern Cape. Amahlathi is signing an MOU with the Land Claims Commission which will ensure business sustainability of the land claimants involved in timber. Our submission is therefore sector specific.

Amahlathi hereby wishes to record our support for the land reform process which the Expropriation Bill (B16) seeks to advance. Our view of the land reform process, in addition to it being a political imperative, is also an economic one. It must be used as a tool to create jobs, fight poverty, promote SMME's and contribute to the economic transformation objects of the country. However, based on our observations and experience of the land reform processes the Bill in its current form is likely to have unintended consequences which could seriously limit Black Economic Empowerment in the Forest Industry. For this reason we thought it important to bring this to the attention of the portfolio committee.

Motivation / Explanation

Forestry as a land use is a long term economic activity (pine 25 years, wattle & gum 10 years) in which the stock (standing trees) develops a high value in order to produce a consistent income for the owner. A commercial forest undertaking is therefore the only one where on the sale of the property there is a separation in the value of the land and the stock (timber). This is normal forestry valuation practice which is implemented in the land restitution process.

Forestry Valuation Treated Differently to Agriculture

In the valuation of agricultural undertakings the standing crop is either viewed as part of the land value (vines, fruit trees, sugar cane) and taxed as a single entity or can be easily liquidated or moved (livestock). This is in contrast to forestry valuations.

On account of the immovable nature of the forest stock on an estate it is vital for forest owners to be assured of a definable free market value for their trees in event of the expropriation of the land.

Potential Unintended Consequences

In order to achieve sustainable economic transformation objectives for the benefit of the previously disadvantaged forest entrepreneurs, access to timber fibre is vital.

In the event of expropriation, if the tree value is set below the going market value the following unintended consequences may result:

- (a) Privately owned plantations would be sold standing at current market prices (this has already begun). With the current fibre shortage the major purchasers under these circumstances are the pulp and paper manufacturers. This fibre is now effectively removed from the market and by default from the previously disadvantaged forest entrepreneurs and SMME's.
- (b) The Forestry Industry is characterised by high concentration in terms of ownership and is capital intensive. A wholesale sell-off of privately owned plantations will lead to further concentration in the forestry sector with a wide spectrum of forest manufacturers outside of the pulp and paper sectors losing access to raw material (e.g. saw millers, treating plants, chipping plants, etc).
- (c) The result may be that the Broad Based Black Economic Empowerment process could be seriously compromised.
- (d) There may be negative consequences for employment in the SMME sector and the broad initiative for promoting entrepreneurship.

Should the above scenario prevail, the political objective of land reform in terms of ownership will be achieved but the economic objective of developing previously disadvantaged forest entrepreneurs will be seriously compromised. The potential of the SMME sector which is the engine for job creation and poverty alleviation may be undermined.