

10. Strategic Objectives for the Forest Sector

In line with the vision statement as outlined in par. 8, the following strategic objectives are set for transforming the Forest Sector over the next ten years: (This summary list is illustrative and needs to be compiled based on Government and Industry's commitment to "invest" in the various BBBEE outlined in chapter 11 and 12 and costed in chapter 14)

- (a) Afforestation of more than 100 000 over the next ten years, mostly in the Eastern Cape and KwaZulu-Natal through black owned forestry enterprises. This will underpin further growth in the timber processing, value-adding and marketing sector.
- (b) Creation of – new employment opportunities in the forest sector.
- (c) Creation of – new enterprises in the forest sector.
- (d) Well functioning representative structures for the forest industry. This includes the establishment of representative organisations for sawmillers and charcoal producers as well as improved levels of organisation and representation of workers throughout the sector.
- (e) Establishment of funding mechanisms to support forest enterprise development involving both industry and government funding.
- (f) Development of a sawlog growing strategy and programme that will address the looming shortage of sawlog supply in the country and ensure sustainability of the local sawlog plantation industry.
- (g) Increase participation of black people in forestry value adding industries, such as sawmilling, paper production and charcoal production.
- (h) Concerted strategy to develop black skills in the forest sector to underpin greater employment equity in and black management control of the forest sector.
- (i)

11. BBBEE Scorecard for the Forest Sector

11.1. Application of the scorecard

The indicators, weighing and targets set out in the scorecard for each sub-sector as presented in Table 1 have been designed to meet the sub-sector specific requirements for enterprises in supporting BBBEE through the Forest Sector. The following sub-sectors are covered in the scorecard:

- (a) Growers sub-sector (plantation forestry growers and nurseries)
- (b) Contracting sub-sector (forestry contractors in silviculture, harvesting, fire-fighting services and other forestry contracting services that are not covered by their own Sector Charters)
- (c) Fibre sub-sector (pulp, paper, paperboard, timber board product and woodchip manufactures)
- (d) Sawmilling sub-sector (industrial, structural and mining timber sawmills)

(e) Pole sub-sector (pole treatment plants)

(f) Charcoal sub-sector (charcoal producers)

The Scorecard measures the following **elements** of BBBEE:

- Direct empowerment through Ownership and Management Control of enterprises and assets.
- Human resource development through Employment Equity and Skills Development in the workplace.
- Indirect empowerment through Preferential Procurement, Enterprise Development and the Residual Contributions, which cover Corporate Social Investment and Industry Specific Initiatives.

The **weightings** assigned to each of the elements reflect the relative importance that the sector places thereon. The seven elements are weighted to bring the scorecard to 100 points. The scorecard also provides for six bonus points, resulting in a total of 106 available BEE points.

The **indicators** represent the measurement yardsticks to be used to determine BBBEE contribution made by forest enterprises within each of the elements contained in the scorecard.

The **targets** represent the ideal scenario at which forest enterprises will score full points for the respective indicators. Therefore, the targets set out in this Charter are visionary and contain a lot of "stretch" to encourage enterprises to pursue meaningful transformation. These targets are based on what should be achieved within a ten-year period. Interim milestone targets will be set by individual enterprises and will be reported on to the Charter Council as outlined in par 13.2 of the Charter.

The scorecard applies to all enterprises in the forest sector, subject to the following exemptions and qualifications:

- (a) If an enterprise operates in more than one forest sub-sector or across sectors and these operations are not located within a separate business unit or subsidiary, the enterprise will be required to report on all its activities in terms of the Scorecard for the sub-sector or sector in which most of its core activities (measured in terms of turnover) are located. Where the activities are located in within a separate business units or subsidiaries, then the scorecard relevant to that business unit or subsidiary (whether inside of outside the forest sector) will apply. Provided that where annual turnover for any forest sub-sector activity is greater than specified for a QSE for that sub-sector as outlined in par. (c) below, the enterprise will report separately on those activities according to the relevant scorecard for that activity.
- (b) Forest enterprises that have a total annual turnover of less that R1.5 million will be deemed to be "Exempted Micro Enterprises" that qualify for BEE compliance exemption, provided they meet the requirements of non-circumvention as outlined in Code 1000 Statement 1000. These enterprises and are exempted from the scorecard requirements as provided for in this Charter and they will have a deemed BEE Procurement Level of 100% and a BEE Status Level of Four as provided for in Code 1000 Statement 1000.

- (c) Enterprises that have a total annual turnover of R1.5 million or more, but less than R50 million for the fibre sub-sector and R10 million for all other forest sub-sectors, will be deemed to be "Qualifying Small Enterprises" (QSE's) and will be subject to the requirements of the Qualifying Small Enterprise Scorecard as presented in Table 2 of this Charter and further outlined in Code 1000 Statement 1000.
- a) A Qualifying Small Forest Enterprise may elect to be measured using five of the seven elements of broad-based black economic empowerment.
 - b) Each indicator has a weighting of 20 percent, resulting in a total of 140 available BEE points, as well as five bonus points.
 - c) A Qualifying Small Forest Enterprise that elects not to be measured in terms of the ownership or management control elements of the scorecard is still entitled to receive the bonus points under these elements based on their contribution to the targets set for the bonus points.
 - d) When electing to be measured using more than five of the seven elements, the BEE status must be determined using a total of 125 BEE points.
 - e) A Qualifying Small Forest Enterprise which elects to include the ownership element in their measure, will have its ownership score (including bonus points) multiplied by 1.25, provided that the enterprise scores a minimum of 20 points (including bonus points) for ownership before application of this multiple.
- (d) Public entities in the Forest Sector are subject to the Scorecard targets and weightings provided for in this Charter, on the understanding that the ownership of public entities wholly owned by organs of state will be measured in terms of the Code 100 Statement 104 as applied to public entities and organs of state.
- (e) The Scorecard targets and weightings provided for in this Charter will apply from the date that the Charter has been gazetted in terms of section 12 of the Broad-based Black Economic Empowerment Act of 2003 until September 2016. (Refinement still needed here)
- (f) A word, expression or definition used in the Scorecards has the meaning assigned to it in the Codes of Good Practices gazetted under section 9(1) of the Broad-based Black Economic Empowerment Act of 2003, unless otherwise specified in this Charter.
- (g) The Codes of Good Practice for the Employment Equity, Skills Development, Enterprise Development and Residual Elements of the scorecard, as well as those for Qualifying Small Enterprises which the Steering Committee use to benchmark this draft Charter, have been published by the Department of Trade and Industry for public comments and still need to be gazetted. Once gazetted there will be an opportunity for the Forest Sector to align the scorecard in this Charter with the indicators, targets, weightings that will apply for the country as a whole.

11.2. Ownership

The sector aims to attain an overall level of ownership by black people of 30% (still to be confirmed) of the industry by 2016. The industry and government is committed to working together in pursuing this target as follows:

- (a) The transfer of equity ownership and sale of business assets to achieve 25% ownership by black people in existing enterprises in the plantation growing, fibre, and pole production sub-sectors.
- (b) The sale of equity ownership and business assets to achieve 30% ownership by black people in existing enterprises in the sawmilling and charcoal production sub-sectors and 50% in the contracting sector. These higher targets are achievable due to the lower capital investment requirements to effect transformation in these sectors and the higher levels of black participation and interest that already exists within these sub-sectors. The weighting for the ownership element of the scorecard has also been increased for the contracting sub-sector, from 20 points provide for in the published Codes of Good Practice on the ownership element of BBBEE to 30 points. This is due to the significant impact that ownership transformation for large number of forestry contractors will have on BBBEE.
- (c) The restructuring of state forest assets to support black ownership in the forestry sub-sector and, through log supply, in the forest product sectors. The transfer of some ha of Category A plantations underway, as well as the transfer of some ha smaller Category B & C plantations will transfer -% of the value of the forestry sub-sector to black people, mostly rural poor communities. The shortages in timber supply in South Africa enables the shaping of these transactions to leverage greater black ownership in the downstream forestry value chain.
- (d) The entrance of significant numbers of new black owned enterprises into the sector through enterprise development support initiatives by industry and government. This includes opportunities for new afforestation on land already owned by black people as well expected growth in black owned forestry value-adding enterprises.

The sector commits to attaining greater gender parity in ownership of forest enterprises. The industry is working from a low base and overall level of ownership by black women of 12% over a ten-year period has been set for the industry as a whole. This target needs to be achieved through a combination of initiatives:

- (a) The transfer of equity ownership and sale of business assets to achieve 10% ownership by black women in existing plantation growing and fibre processing and pole production enterprises by 2016. Higher targets are set for the forestry contracting enterprises (25%), sawmilling enterprises (15%) and charcoal production enterprises. This is inline with the higher overall black ownership targets set for these sub-sectors and is justified on the basis of the high proportion of black women already engaged in these sub-sectors.
- (b) Special attention to be given by industry and government to enterprise development support for women in the forest sector.

The sector commits to ensuring that black ownership in the forest sector is broad based by setting higher targets and weightings for ownership by black workers, people living in

rural areas and black new entrants into the economy than those published in the Codes of Good Practice on the ownership element of BBBEE. An equity ownership target of 5% over 10-years has been set for these groups for existing plantation growing and fibre processing enterprises. These targets have been further lifted to 10% for forestry contracting and charcoal production enterprises and to 15% for sawmilling enterprises. The pole sub-sector has elected not to increase their scorecard target and weighting for this group, but to provide incentives for their increased participation through the allocation of bonus points.

11.3. Management Control

Industry aligns itself with published Codes of Good Practice on the management control element of BBBEE by committing itself to substantially increasing the number of black people, including black women that exercise management control over the forest industry. The same targets have been set for all sub-sectors, namely a 50% target for black representation at board level and a 40% target for black representation at top management level. Representation of black women has been set at 50% of these targets. The industry as a whole is working from a low base and a concerted effort by all sector role players in promoting the image of the forest sector, succession planning, implementing skills development programmes and recruiting suitable management staff is necessary to achieve these targets in 10 years.

11.4. Employment Equity

Industry aligns itself with published Codes of Good Practice on the employment equity element of BBBEE by committing itself to substantially increasing the number of black people, including black women, that are represented in the various management levels and the professional and technically skilled staff components of enterprises in the forest sector. The industry as a whole is working from a low base in all employment categories other than in the skilled technical, junior management and supervisory levels. A target of 80% black employees for this category has been set by all sub-sectors.

The employment target set for black representation at senior management level is 60% for all sub-sectors, except for the contracting and charcoal sub-sectors where a lower target of 50% is considered an achievable stretch and in view of the greater focus placed by this sub-sector on ownership transformation. The target for representation of black women at this level has been set at 50% of total black representation.

The employment targets set for black representation at the middle management and professionally qualified level is 75% for grower and pole sub-sectors. Lower targets have been set for the other sub-sectors due to the inherent difficulties to effect such a quantum transformation within 10 years. Again, the target for representation of black women at this level has been set at 50% of total black representation.

At the senior and middle management levels the industry is working from a low base. A concerted effort by all sector role players in promoting the image of the forest sector, succession planning, implementing skills development programmes and recruiting suitable management staff is necessary to achieve these targets in 10 years.

11.5. Skills Development

Skills development is critical to underpin the management control and employment equity targets. Therefore, industry aligns itself with published Codes of Good Practice on skills development by committing itself to substantially increasing the skills development spend on black people to 3% of payroll, over and above the 1% spend on the skills levy. Skills development spend will be focussed on critical, core and scarce skills required by the sector and a higher proportion of spend (at least 54% of total) will be spent on skills development for black women.

The industry recognises the importance of SETA-accredited learnerships as skills development instruments but also recognises the need for other instruments such as structured learning programmes, bursaries, internships, apprenticeships and ABET programmes to address enterprise-specific and sector specific needs. A target of 5% black employees in training as a percentage of total employees has been set for the sector, of which at least 1% will be formerly unemployed black people or people residing in rural areas.

Industry is committed to ensuring that the aforementioned skills development targets are achieved within 1 years of the signing of the Charter, so as to ensure that an early foundation is laid for reaching the management control and employment equity targets. Achieving the skills development targets will pose a challenge to industry, government and training institutions and bodies to ensure that the training systems and infrastructure is in place to secure the level and effectiveness of training spend.

The industry also commits to the organisational transformation targets as contained in the Codes of Good Practice on skills development. The forestry contracting sub-sector commits to the same but will give effect to these transformation targets through good practice in employment that will be provided for in the Code of Good Practice for Forestry Contracting.

11.6. Preferential Procurement

Preferential procurement is designed to widen market access for black entities in order to integrate them into the mainstream of the economy. Preferential procurement will create empowerment benefits indirectly but meaningfully as it multiplies the effect of industry spend to promote BBBEE.

The largest portions of procurement spend in the forestry sub-sector is on forestry contracting services. Here preferential procurement will be directed at both supporting increased BBBEE in the forestry contracting industry, as well as the quality of this empowerment as it relates to the sustainability of and improved working conditions in this industry. To address the latter, the forestry industry commits to a Code of Good Practice on Forestry Contracting. The forestry contracting industry commits to the same, ensuring that good practice is maintained between contractors and sub-contractors, most of whom are already black owned enterprises.

Much procurement spend by large charcoal producers is on lump charcoal from small scale charcoal producers, most of which are black owned and managed enterprises. Here the challenge is not increased BBBEE through procurement spend, but improved

working conditions and greater sustainability of emerging producers. To this end, the charcoal sub-sector commits to a Code of Good Practice for the Charcoal industry.

Procurement spend in the timber processing industry is significant, but the ability to shape BBBEE through this spend is limited by the fact that much of this spend is not discretionary: spend on timber in short supply, energy supply by utilities, imported machinery and chemicals provided by a limited number of suppliers. (this section still needs to be completed with inputs from the Steering Committee)

11.7. Enterprise Development

Supporting black enterprise development in the forestry growing and processing industries is a critical component of BBBEE in the Forest Sector. Therefore, industry aligns itself with published Codes of Good Practice on enterprise development by committing itself to spending at least 5% of earnings on enterprise development; of which at 2% will be non-recoverable spend. All sub-sectors are also committed to allocating additional bonus points to enterprise development, either directly under this element of the scorecard or by focussing their spend on industry specific initiatives on additional enterprise development support. Special attention will be given to targeting women and rural communities in enterprise development support.

11.8. Residual Elements

The residual element of the scorecard deals with both corporate social investment and industry specific initiatives.

11.8.1 Corporate Social Investment

Most forest enterprises are located in rural areas where the majority of the country's poor live. The forest sector is well placed to advance BBBEE and poverty alleviation through corporate social investment initiatives that provide services and amenities to the rural poor, such as housing provision for workers and their families, support to health and HIV/AIDS programmes, provision of community education facilities, environmental conservation programmes, community training in fire prevention and conservation and support with rural road maintenance. Industry is committed to continued social support in these areas and to spending at least 1.5% of earnings on corporate social investment.

The forestry sub-sector is aware of the important role of forest in providing livelihood opportunities for poor rural households and commits to ensuring regulated access to non-timber forest products such as firewood, building poles, medicinal plants and edible fruits by local communities.

11.8.2 Industry Specific Initiatives

The industry commits to spending at least 1.5% of earnings on industry specific initiatives. This spend will be focused on addressing the sector specific challenges facing the forestry and forest products industry as outlined in par. 9 above. These industry specific initiatives are outlined for each sub-sector as follows:

Growers	<p>(i) Activities that do not benefit the enterprise itself in terms of its standard management practices but benefit the general environment in which the enterprise operates, the communities surrounding the enterprise and national initiatives identified by Government as being in the interests of the country.</p> <p>(ii) The provision of goods and services to local communities that are extraneous to the purposes for which the enterprise was established or exists, including those activities which protect the environment and communities from natural threats.</p> <p>(iii) Contributions made to institutions and organisations that are involved in addressing national, provincial and local government imperatives and sector specific institutions and organisations whose work also contributes to the meeting of these objectives.</p> <p>(iv) Activities that can be considered as contributing to the well-being and benefit of the public at large.</p> <p>(v) Activities that assist in the attainment of the objective of international agreements and protocols to which the Government is signatory, and to which the Industry and the enterprise contribute.</p>
Forestry Contractors	Contribution to representative Contractors Association's programmes aimed at empowering black contractors
Fibre producers	Spend on enterprise development (including research & development and training) that supports increased roundwood supply, local beneficiation of forest products and waste products, as well as local production of goods and services procured by the fibre sub-sector.
Sawmillers	<p>Contribution to the establishment of a representative Sawmiller's organisation and the organisation's programmes aimed at supporting, encouraging and nurturing emerging black sawmilling enterprises. For example:</p> <ul style="list-style-type: none"> • Technology transfer to optimise production • Improved methods of operation • Support to improve workplace safety • Support to improve quality standards • Public research to promote sawmilling industry (eg SIREX) • Promote attention to BBBEE compliance amongst suppliers
Pole producers	<p>SAWPA approved programmes aimed at the following:</p> <ul style="list-style-type: none"> • Support to twilight operators including information and advice to comply industry standards and to develop their operations • Information and training on pole selection and adherence to standards
Charcoal producers	<p>Contribution to the establishment of a representative Charcoal Producers organisation and programmes aimed at supporting, encouraging and nurturing emerging black charcoal production enterprises. For example:</p> <ul style="list-style-type: none"> • Support to improve quality standards • Information on training opportunities • Interact with FIETA and other institutions to ensure availability of adequacy of training programmes • Information on availability of raw material resources and market opportunities and prices • Information on enterprise development opportunities

- Information on funding opportunities and support to access funds
- Technology transfer to optimise production
- Improved methods of operation
- Environmental awareness programmes
- Support to improve workplace safety
- Promote new entrants into the charcoal market

Shortages in timber supply in the country enable growers to leverage BBBEE through the sale of their timber to BEE compliant processing enterprises. The scorecard provides for the allocation of bonus points to growers that promote BBBEE through timber supply contracts. (this section still needs to be completed with inputs from the Steering Committee)

Year	Responsible Party	Key Action/Policy	Impact/Outcome
2017	Government	Review role of SAP-COL, including any possible role in forestry development	Facilitating BEE support
1 year	Government	Plan for the restructuring of remaining Category B and C state parastatals in accordance with pro-poor development agenda and broad based economic empowerment	Addressing BEE targets
2 years	Government	Confirm land-holding rights and establish land-holding structures for state-owned forests - refer to par 12.4.4	Addressing BEE targets
2 years	Government	Facilitate the acquisition of state-owned forests to allow for favourable BEE transactions	Addressing BEE targets
2 years	Government	Refer to instruments to access to funds and financial services under par 12.4.1	Addressing BEE targets

12.1.1 Funding facility for BBBEE transactions

Access to funding is required to finance BEE transactions involving both the sale of forestry equipment and business assets to existing enterprises. The instruments used by corporate companies to fund large scale empowerment deals are well known and the greatest challenge for well-funding the appropriate funding mechanisms to deal with the sector specific requirements to fund empowerment transactions for smaller enterprises. The initiative to be undertaken in the regard are outlined in par 12.1.1 below

¹ This has been completed in the Charter review strategy

12. Instruments and undertakings for achieving BBBEE Targets

The implementation of the scorecard requires the application of a set of business, training, financial, regulatory and institutional support instruments. Many of these instruments are already in place, while some need to be established or strengthened under the Charter. Instruments and undertakings identified and agreed to under the framework of this Charter are outlined below as they related to key elements of the scorecard.

12.1. Instruments to support Ownership Targets

Requirement	Instruments	Responsibilities	Target date ¹
Access to funds for purchase of equity ownership & sale of business assets	Refer to instruments to access to funds and financial services under par. 12.4.1		
<i>Address taxation problems to facilitate equity transfer in family owned businesses</i>	<i>Broaden tax exemption on intra-group transactions to allow the favourable tax treatment of "sole proprietors" involved in BBBEE transactions</i>	Government	2 years
Restructuring of State forest assets in support of BBBEE targets	Review role of SAFCOL, including any possible role in forestry development	Government	31 March 2007
	Plan for the restructuring of remaining (Category B and C) state plantations in accordance with pro-poor development agenda and broad based economic empowerment	Government	1 year
	Confirm land-holding rights and establish land-holding structures for state forestland transfers – refer to par. 12.4.4	Government	5 years

12.1.1 Funding facility for BBBEE transactions

Access to funding is required to finance BEE transactions involving both the sale of ownership equity and business assets in existing enterprises. The mechanisms used by corporate companies to fund large-scale empowerment deals are well known and the greatest challenge lies with finding the appropriate funding mechanisms to meet the sector specific requirements to fund empowerment transactions for smaller enterprises. The initiatives to be undertaken in this regard are outlined in par. 12.4.1 below.

¹ Target time period for completion after Charter becomes effective