

# 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



Photo: James Mayers

**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 Mpumalanga	32 354 177018	18 826 120 256	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
KwaZulu-Natal	43 946	32 652	
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 context 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 blocks. 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.



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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.



Photo: James Meyers

**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 exist 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.

<b>Enterprise (and main species involved)</b>	<b>Type of certification</b>	<b>Area certified</b>
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
<b>Total</b>		<b>1,330,808 ha</b>

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,





Photo: James Mayers

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.

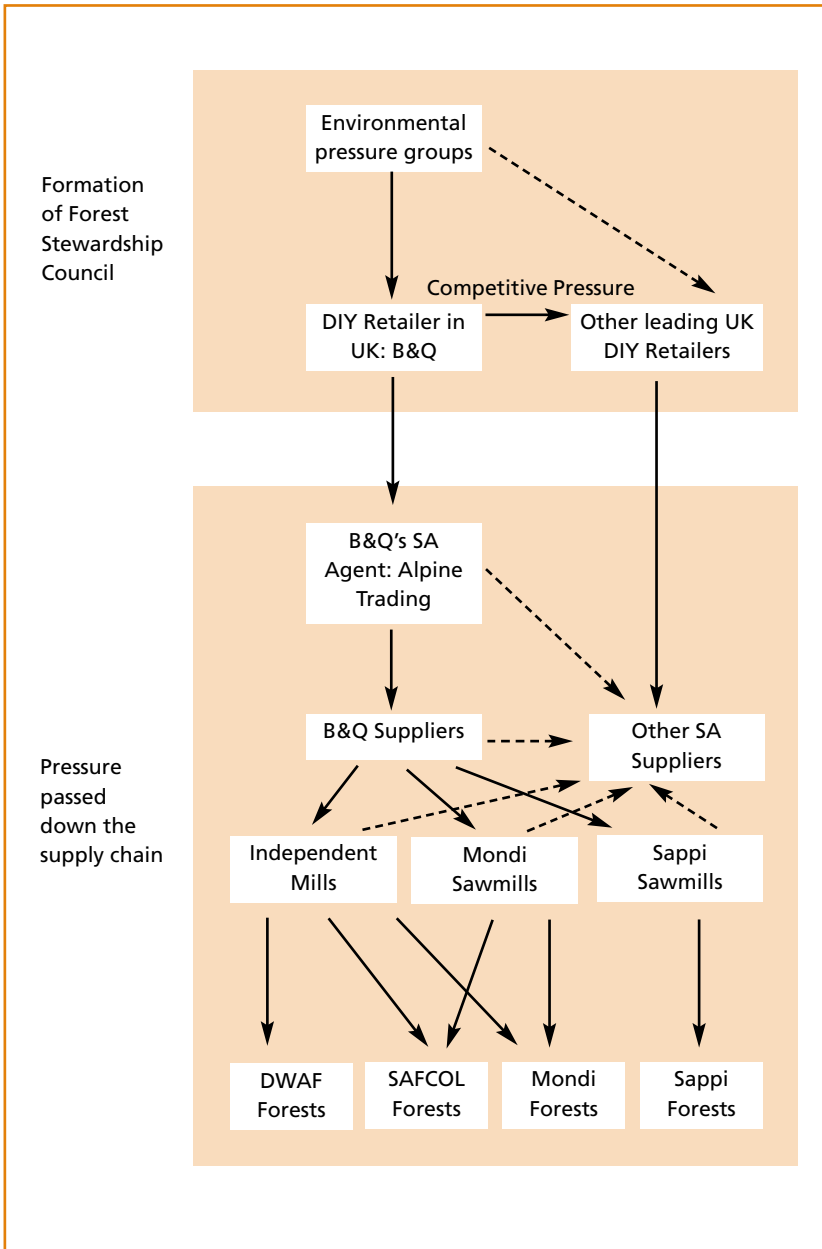
Since the purpose of *chain of custody* certification is to ensure that a certified product can be traced back to its original timber source, it is essentially a straightforward 'book-keeping system'. If firms are only buying timber from certified sources then chain of custody is simple. If firms are 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.



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 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<sup>3</sup>. 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’.

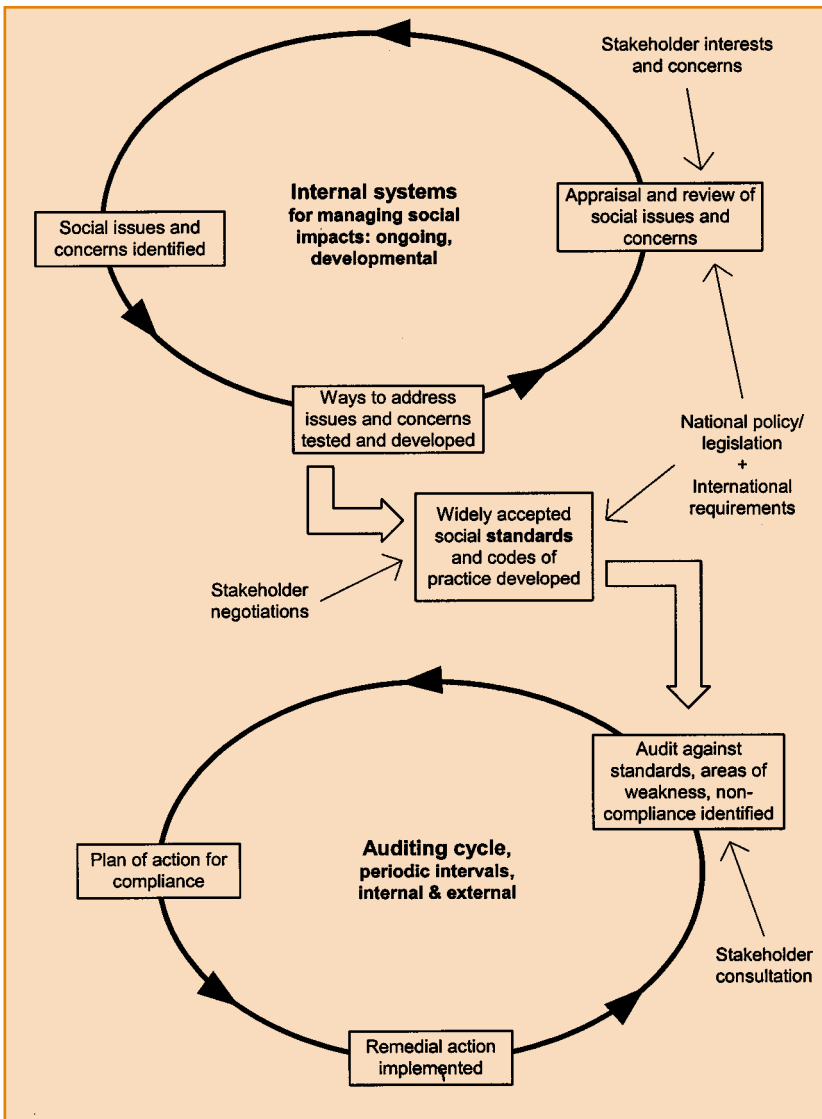
**Systems for company learning.** Assessors on surveillance visits have consistently reported that companies are learning from the FSC process. Operating procedures and manuals have been improved and training is organised on specific issues. However, there are some notable gaps. For example, forestry 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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<sup>3</sup> 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**



Source: adapted from Clarke 2000 <sup>4</sup>

<sup>4</sup> 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<sup>3</sup> 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<sup>5</sup>. 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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<sup>5</sup> 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<sup>6</sup>, 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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<sup>6</sup> 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.





Photo: James Mayers

**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.