



Raising the stakes

Impacts of privatisation,
certification and partnerships
in South African forestry

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October 2001

A component of the international collaborative
research project steered by IIED: Instruments for
sustainable private sector forestry

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Citation: Mayers, J., Evans, J. and Foy, T. 2001. *Raising the stakes: impacts of privatisation, certification and partnerships in South African forestry*. Instruments for sustainable private sector forestry series. International Institute for Environment and Development, London.

Design: Eileen Higgins

Cover photos: James Mayers

Illustration on chapter pages : © Christine Bass

Print: by Russell Press, Nottingham, UK. Printed on Sovereign Silk 115gsm, 100% chlorine free

Instruments for sustainable private sector forestry is a project co-ordinated by the International Institute for Environment and Development (IIED) and is supported by the UK Department for International Development and the European Commission. The *Instruments for sustainable private sector forestry* publication series derives from this project. Other studies in the series to date are:

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Executive summary

Commercial forestry in South Africa is in transition. Relationships between the players – between government, civil society and the private sector – are changing, and new players are emerging. This is stimulated by changes in markets, policy and industry-wide trends such as concentration and outsourcing. Three processes in particular stand out as both responses and contributors to these changes:

- *Privatisation* of publicly owned plantations
- *Certification* of forest management and forest products
- *Partnerships* between companies and communities for forestry production

This report pulls together findings on the impacts on forests, economic development and local livelihoods of these and other related processes. It draws on some 20 sub-studies and a wide range of interviews carried out between 1999 and 2001. The aim is to understand how the private sector is changing and how in future it might play a stronger role in national objectives of economic efficiency, environmental sustainability and social empowerment.

Trends in the development of South Africa's forest industry

Over the space of about 100 years, South Africa's forest industry has grown into an internationally significant industry of great importance to the national economy. The historical development of the industry reveals three key themes. Firstly, the influential role of the state at key times. In response to a perceived national interest, the state filled the gap left when private investors were unwilling to develop plantation resources, by subsidising raw material prices and providing investment incentives. Over time, as the private sector proved more willing and able to assume the role, the state has become a less significant player. Secondly, there has been recent, but rapid, development of pulp and paper as a dynamic component of the industry. Thirdly, there has been a related rise in importance of international markets and international trends to South Africa's industry.

Current state of play

Within a very short period of time, South Africa has emerged as an international player. Today, from South Africa's 1.2% of national land area under plantation (1.5 million ha) some 19 million m³ of roundwood is produced each year, half of it pulpwood, making the country the 12th largest



producer of pulp in the world. Sappi and Mondi – both global industry leaders in their respective paper product sectors – together own 47% of the plantations, the State owns 30%, smaller private enterprise and individuals own 22%, and the remaining 1% is shared by some 19,000 small or micro-growers. This high concentration reflects a process of vertical integration of the big companies, with the pulp and paper industry dominated by four main groups – Mondi, Sappi, Nampak and Kimberly – who produce 98% of the country's pulp, paper and board. The sawmilling industry is less concentrated although the five largest owners – Mondi, Hans Merensky, Sappi, Safcol and Yorkcor (each with several mills) – account for 70% of total production (1.87 million m³ per annum), whilst some 220 small-scale mills account for only 10% of sawlogs.

South Africa is relatively more dependent upon international markets than other larger producers, and is therefore more vulnerable to changes in prices and market sentiment. Recent changes in legislation and policy, along with the general international trend to concentrate on core business, provide the incentive for companies to outsource the timber they process rather than to hold land and grow it themselves. Contracting out offers an important opportunity for greater participation in the industry, particularly by entrepreneurs from the previously disadvantaged community. However, poor conditions in the contracting industry are a concern.

The policy back-drop

Forest sector policy seeks to encourage the management of forests for the sustained yield of multiple goods and services for the benefit of multiple stakeholders. Considerable policy emphasis is put on woodlands, which cover, 23 million hectares – dwarfing the 1.5 million hectares of plantation which to date has been the focus of forestry – and provide people with a wide range of forest goods and services.

Macro policy in South Africa generally supports the multiple-use emphasis of forest policy – putting a major emphasis on sustainable development and improving the lives and wealth creation opportunities for previously disadvantaged sections of society. Other key sectoral policy influences on forestry include water policy which in the near future will put increasing checks on the spread of plantation forestry, and will challenge such forestry as an appropriate land use in some existing plantation areas. Land reform policy, although rather slow to gather momentum, presents opportunities for new players and some threats to existing plantation ownership through the land restitution process.

Privatisation – the instruments and the process

Post-1994 policies in South Africa call for radical changes in the way forests are managed to achieve national goals. A key element of this redefinition is privatisation of publicly owned commercial forestry operations. 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 on 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 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, and objective assessments of its success would be premature. However, the process has encouraged much thinking and a changed philosophy is evident – which recognises that government and the private sector need not be adversaries, provided the instruments which can balance public as well as private sector interests are put in place.

Certification – good for business, weak on social issues

About 0.83 million of South Africa’s 1.5 million hectares of industrial plantation forest are currently certified under Forest Stewardship Council certification, with another 0.5 million hectares notionally covered by ISO 14001 certification of Sappi’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.
- *Only small, specific markets demand certification.* Certain niche markets for certified solid wood products have been found – but the big pulp market is unmoved as yet.
- *Market benefits accrue only when certification is combined with other strategies.* FSC certification alone appears insufficient to command new business, but combined with an existing relationship with customers, adequate manufacturing capacity or a specific position in the industry, it 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. But often suppliers bear most of the costs and buyers reap most of the benefits.
- *Social issues and smallholder livelihoods – major challenges remaining.* Certification has provided a framework for identifying stakeholder concerns but social issues have been relatively poorly addressed in the certification process itself. Small growers as yet feel little benefit from certification.
- *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. Government already requires certification within two years of agreement of a lease to plantation on government land.

Certification has helped those whose plantation management was already good, and could afford it. These companies are now busy finding other ways to demonstrate their credentials as good managers. Certification has enabled them to talk with international friends, national stakeholders, and even the local neighbours, without quite so much blood-letting as in the past. Executives and environmental officers of the big forestry companies, together with some mill managers have made considerable capital out of the market positioning, packaging and branding advantages of certification. But the large South African forestry dog is still being wagged by a tiny consumer tail – since the only important market for certified wood products thus far is the DIY retail market in the UK.



There is much still to be done if certification is to become capable of effectively addressing the ‘messy’ social issues generated by these companies, and by all those forest enterprises that are not the biggest and the best. Indeed, certification has shored up the reputations of the biggest companies just as wider societal debates are promoting a larger number of smaller, communally based, producers and more equitable patterns of land and resource control.

Concerns for the future also revolve around the impact of changed requirements for certification with respect to further afforestation – particularly in regard to genetically modified material. Another major challenge lies in the fact that certification has had no effect on all those forests that really need improving – the plethora of small planted forest patches and woodlots and the vast areas of indigenous woodlands.

Company-community partnerships – improvement, but no panacea, for livelihoods

Corporate social responsibility initiatives in forestry have been around for years and outgrower schemes in South Africa grew out of these. Today however, these schemes are somewhere on the boundary between corporate social responsibility and hard-nosed business. Under the schemes, trees are grown by

smallholders with support from companies who later buy the product for pulp. Outgrowing is a way of allocating risk between producer and contractor: the former takes the risk of production and the latter the risk of marketing.

Outgrower schemes have become a vital part of the commercial strategy of the large forest companies in South Africa. Whilst outgrower timber only provides a small proportion of mill throughput, and is the most expensive per tonne, it also provides the fibre to the companies that would otherwise be unavailable because of land constraints. This allows a volume of production to be reached which achieves economies of large scale.

Outgrower schemes have contributed to household income but have not yet taken households out of poverty. In terms of the asset base for livelihoods:

- *Natural capital* has been built by households increasingly substituting trees for cattle as forms of savings. Some have also acquired new land under sale agreement of state assets. However potential negative impacts include spread of alien invasive vegetation and lowering of water tables.
- *Social capital* has been built by securing land rights within the communal tenure system through the schemes. However, growers associations capable of negotiating better terms of contract with the companies are still weak.
- *Human capital* has been built through silvicultural skills development. But there are a number of ways in which women are exploited in the schemes.
- *Physical and financial capital* has been built through access roads, input supply depots and rural credit provision. However, many growers fell their trees early to meet emergencies, they are tied by contract to the companies – restricting their ability to bargain for the best prices – and are excluded from owning shares in processing.

Small growers also face problems with mysterious or opaque government policy and uncoordinated service provision from agencies of national and local government. Their associations lack the power to engage with the policies and institutions that affect their livelihoods.

In contrast to the individually-based outgrower schemes, community-based forestry partnerships based on equity sharing or joint ventures have only received attention recently. These have focused on the Eastern Cape, where potential for new forestry is greatest. Yet there are some major disincentives for companies in the Eastern Cape, including poor roads and huge transport distances and little primary industry. In general, the companies are reluctant to 'go it alone' as development catalysts in the region and, as a result, partnerships have been slow to get off the ground.



Challenges ahead – more widely held vision required

Some growth in South Africa's forest industry seems likely. Most of this is likely to be in the pulp and paper sector, where production capacity is now almost fully utilised. The extent of that growth will almost certainly depend upon the industry's ability to extend the area afforested and to produce fibre at internationally competitive rates to feed the requirements of any new pulping and paper manufacturing capacity. Any future expansion in the afforested area will almost inevitably be focused on communally held land holdings, requiring the development of some form of partnership with those communities. The industry's ability to contain costs will depend upon its success in implementing new requirements regarding water, environmental management, social and labour factors, whilst trends towards outsourcing and contracting out seem likely to continue.

However, it is clear that, without actions to shape them, trends in South African forestry will not miraculously combine to produce a balance of economic efficiency, environmental sustainability and social empowerment. For such a balance to be possible, a strong new vision for the sector is needed which can provide the basis for actions to meet key challenges. These challenges include:

- *Negotiating a new pattern of ownership.* It is increasingly evident that both market and social empowerment imperatives are pushing towards a pattern of ownership in forestry involving a greatly increased pool of medium and small-scale producers whilst the large corporate actors withdraw to a greater degree from land holding and become effective buyers and processors of the product. Whilst various recent decisions of both government and the private sector support this – further investigation, negotiation and spread of agreement on this is needed.
- *Balancing equity and efficiency.* Harnessing market mechanisms to join regulatory and informational instruments, for both improved competitiveness and empowerment objectives, remains a major task for which stronger support across a wide range of actors is needed.
- *'Putting forestry in its place'.* Changing circumstances have revealed that forestry is no longer the best land use in some locations where it has dominated in the past, whilst in other locations the claim of astute tree planting to be the optimal land use – for social, economic and environmental reasons - is very strong. Balancing forestry with other land uses/alternatives requires a greater degree of cross-sectoral agreement than currently prevails.

Shared vision is needed to generate sufficient investment and space for a range of responses to the above challenges. These responses need to be granted enough room for manoeuvre – with enough time and resources to try, to fail, to learn, to adapt and to succeed. The following options for the different players in the sector have been developed.



Players	Options
<p>Companies – large and medium – and their associations Companies should take social issues much more seriously than they have in the past and make progress at a range of levels that improve their relationships with other players</p>	<ol style="list-style-type: none"> 1. Step-wise systems for engaging with social issues 2. Modified certification procedures to improve learning 3. Criteria, loans and training for contractors 4. Principles for partnerships 5. Practical improvements in outgrowing 6. Equity and revenue sharing with growers
<p>Government Government agencies should take the lead in assessing and attempting to balance the objectives and practices of the other players.</p>	<ol style="list-style-type: none"> 7. ‘Visioning’ and learning for forestry’s future 8. Clear inter-agency co-ordination mechanisms 9. Human resource development strategy for forest contractors 10. Code of practice and dispute resolution on social issues 11. Assessing progress to better forest management 12. Forest permits and licensing implementation 13. Consumptive water use systems and tradeable permits 14. Increased tenure security for growers
<p>Small growers and their associations Just as companies should develop and adopt principles for partnerships, so too should small growers, and their associations.</p>	<ol style="list-style-type: none"> 15. Capacity of grower co-operatives and associations 16. Grower representation at national level
<p>Contractors and small-scale processors – and their associations Contractors and small-scale processors are the most poorly-integrated players in the sector and need stronger contracts, improved conditions and capacity development.</p>	<ol style="list-style-type: none"> 17. Contracts based on legislation and standards 18. Improved contractor conditions and capacity 19. Contractor-grower-company partnerships
<p>Certifiers and development agents Roles of third party certifiers and intermediary development NGOs continue to be critical and their services can be further focused.</p>	<ol style="list-style-type: none"> 20. Training of auditors 21. Fair trade principles and simplified group certification 22. Improved services from development agents
<p>Partnerships between players (local government, companies, NGOs, banks). Some options for improved forestry and livelihoods – indeed amongst the most crucial options – require a partnership approach between players from the outset.</p>	<ol style="list-style-type: none"> 23. A forum on social practice in forestry 24. Developing affected parties into real stakeholders 25. Joint decision-making and partnership brokering

Next steps

The 25 options above need to be chewed over, modified, fleshed out, prioritised and acted upon by the players highlighted. For this to be possible the first step is to disseminate the findings of the studies summarised here, and use briefings and learning processes to actively install them in the minds of individuals and the memories of institutions. A process of gathering feedback, modifying and developing the options, and prioritising them is then needed. Readers are invited to offer their views, and to encourage the players to take action.

Acknowledgements

This paper draws on the work of many people involved in the collaborative research project, running between 1999 and 2001, entitled: *Instruments for sustainable private sector forestry*.

A wide range of people made major contributions as sub-study authors, project advisory group members and workshop participants: Paddy Abbott, Maura Andrew, Pari Baumann, Lael Bethlehem, Simon Bekker, Jock Boake, Rob Cairns, Jeanette Clarke, Michelle Cocks, Colleen Crawford Cousins, Vosi Dladla, Nicki Dunne, Christo Fabricius, Keith Fisher, Bob Frost, Roger Godsmark, Cori Ham, Johann Hamman, Louis Heyl, Juana Horn, Stephen Keet, Meshack Khosa, Fred Kruger, Fonda Lewis, Rory Mack, Graham von Maltitz, Gerrit Marais, Babalwa Matsiliza, Bill Maynard, Sean McCartney, Mafu Nkosi, Alice Ojwang, Mike Pitcher, Andrea Rossi, Sarah Roberts, John Scotcher, Dave Scott, Rebone Segoale, Gill Shepherd, Themba Simelane, Nombulelo Siqana-Ndulp, Lawrence Sisitka, Matt Sokhela, Duncan Stewart, Anne Tallontire, Herman Timmermans, Thidi Tshiguvho, Anne Vaughan, Carla Willis and Jeff Zingel.

A further range of people provided valuable information and insight in interviews during the course of the project: Kwame Abebrese, Pierre Ackerman, Geoff de Beer, Professor Bredenkamp, Mike Coleman, Michael Edwards, Dave Everard, Saliem Fakir, Bruce Ferguson, Sean Gannon, Erik Grobbelaar, Graham Harrison, Colin Harvett, Waldo Hinze, Derek Kinsey, Fritz von Krosijk, Vuyo Mahlati, Harris Majeke, Vuyo Mbelani, Margaret Mkwena, Roland Muhl, Peter Odendaal, Ben Opperman, Robin Palmer, Keith Patterson, Arnold Rossouw, Weideid Voster and Andrew Wanneburgh.



Photos have been provided by Rob Cairns, Christo Fabricius, Rory Mack, James Mayers, Lawrence Sisitka, Sappi Image Library and Andrew Wanneburgh.

We much appreciate vital additional inputs provided at key stages by the following people: Roger Godsmark, Meshack Khosa, Fred Kruger and Renny Madula.

We also thank the reviewers of a draft of this document: Simon Bekker, Lael Bethlehem, Pari Baumann, Colleen Crawford Cousins, John Hudson, Shaun McCartney, Sarah Roberts, Dave Scott, Anne Vaughan and Jeff Zingel.

The authors would like to thank colleagues in their home institutions – the International Institute for Environment and Development (IIED) in London, Environmentek CSIR (Council for Scientific and Industrial Research) in Pretoria and Durban, and the South Africa office of the UK Department for International Development (DFID) in Pretoria. Financial support for this project was provided by the European Commission (EC) and DFID.

Whilst this synthesis paper is hugely indebted to the sub-studies developed in this project, the opinions expressed in this paper are those of the authors alone, and not necessary those of the sub-study authors, IIED, CSIR, DFID or the EC.

Acronyms

APS	Afforestation Permit System
CAR	Corrective Action Request
CBO	Community Based Organisation
CITES	Convention on International Trade in Endangered Species
CSIR	Council for Scientific and Industrial Research
DEAT	Department of Environmental Affairs and Tourism
DFID	Department for International Development (UK)
DIY	Do-It-Yourself
DLA	Department of Land Affairs
DPE	Department of Public Enterprises
DTI	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
EC	European Commission
EMS	Environmental Management System
FIA	Forest Industries Association
FITA	Forest Industries Training Authority
FOA	Forest Owners Association
FSC	Forest Stewardship Council
GDP	Gross domestic Product
GEAR	Growth, Equity and Redistribution Strategy
GEF	Global Environment Facility
GMO	Genetically Modified Organism
Ha	Hectare
HMH	Hans Merensky Holdings
IDP	Integrated Development Plans
IIED	International Institute for Environment and Development
ISO	International Organisation for Standardisation
LDO	Land Development Objectives
LHA	Louis Heyl Associates
m ³	cubic metre
MMP	Mondi Minorco Paper
NCT	Natal Cooperative Timbers
NFA	National Forest Act
NFAP	National Forest Action Programme
pa	Per annum
R	Rand
RDS	Rural Development Strategy
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SA	South Africa
SABS	South Africa Bureau of Standards
SAFCOL	South Africa Forestry Corporation Limited [check]
SATGA	South Africa Timber Growers Association
SAWGU	South Africa Wattle Growers Union
SETA	Skills, Education and Training Authority
SFM	Sustainable Forest Management
SPV	Special Purpose Vehicles

Currency exchange rates

2001 South African Rand	8.17 to US Dollar 1 (July)
2000 South African Rand	6.93 to US Dollar 1
1999 South African Rand	6.11 to US Dollar 1
1998 South African Rand	5.53 to US Dollar 1
1997 South African Rand	4.61 to US Dollar 1
1996 South African Rand	4.30 to US Dollar 1
1995 South African Rand	3.63 to US Dollar 1

