



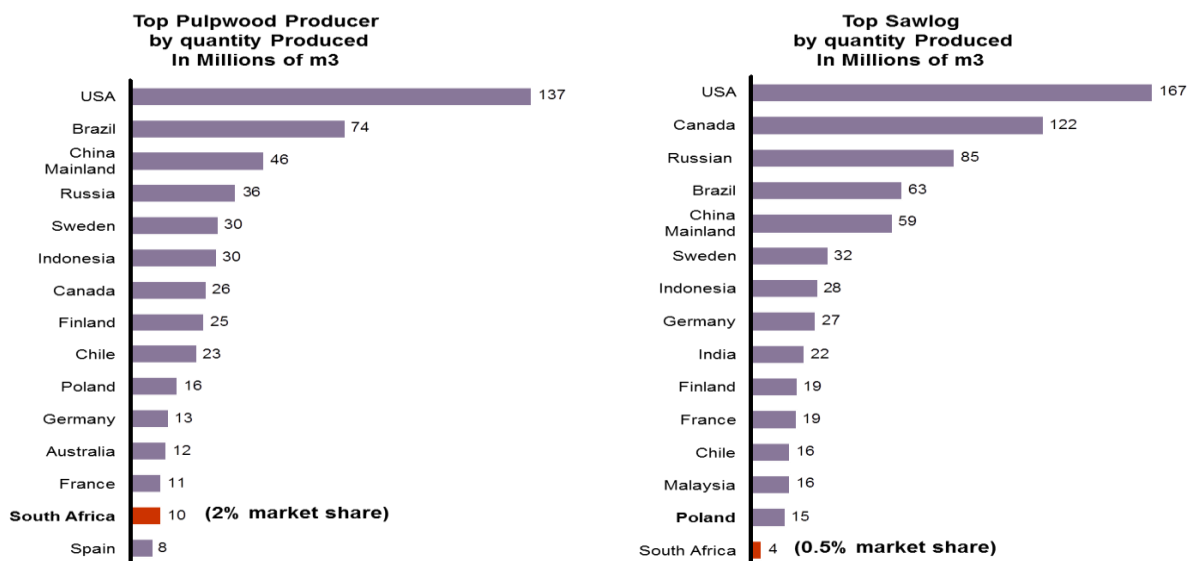
**EXECUTIVE DIRECTORS REPORT TO THE EXECUTIVE COMMITTEE AND AGM
OF SAWMILLING SOUTH AFRICA JUNE 2014 JHB**

THE SA FORESTRY INDUSTRY:-

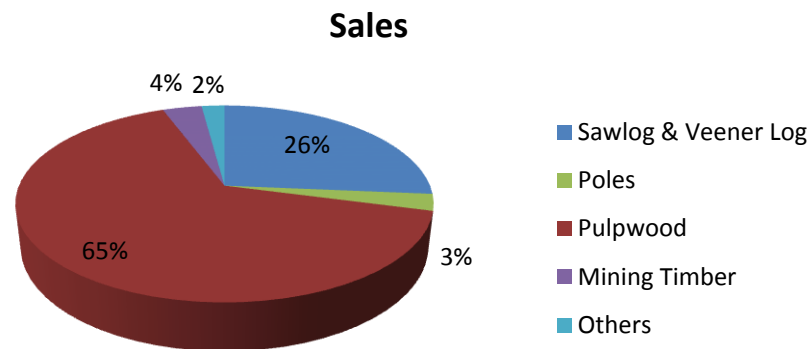
As an introduction to this report it was felt that it would be of interest to compare the sawmilling sector to the entire forest industry in SA. The following is an excerpt from the Forestry Council review for 2013 and is how the South African Government sees the industry.

The South African Forestry Sector

With an output of 18 million tons in 2011, as reported by Forestry SA, and the production mostly made up of pulpwood and sawlog products, South Africa is a relatively small player in the global forestry landscape. Pulpwood is mainly used for paper and paper products, while sawlogs (harvested from larger trees that can be sawn into lumber) is mostly used for infrastructure, building & construction, packaging and furniture manufacturing. The South African forestry sector contributes 2% of the global pulpwood production and less than 1% of global Sawlog production. SA competes in the global forestry market with emerging markets who exploit natural forests amongst others with low costs of production such Brazil and Russia. The R21 billion (in 2011) South African Forestry sector, as reported by Forestry SA, relies heavily on exports, from which it derives over 70% of its revenues. The sector is therefore very much exposed and sensitive to global trends in the industry and the global economic climate affecting demand for forestry products.



South African Production of Forestry Products 2011

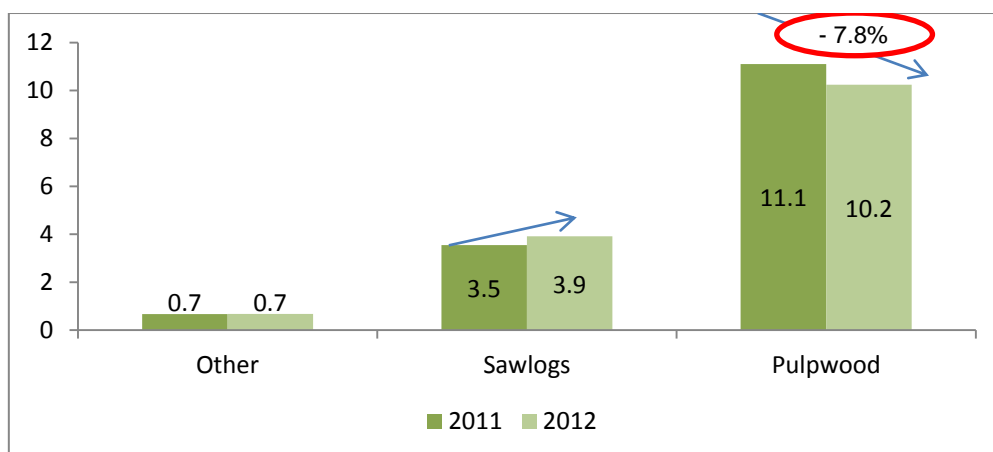


As such, the lingering global recession and the shifts in end users consumption habits have negatively impacted the South African forestry segment, global demand for forestry products exported to Asia, dropped by 19% between 2011 and 2012, while exports to Europe declined by 3%, leading to a loss of close to R2 billion in value (13%) between 2011 and 2012.

Due to the European Sovereign debt crisis, the West European construction market saw a 5.4 % decline over the past 4 years, which has affected demand for wood and wood products and thus imports thereof. Furthermore, cash strapped European consumers have reduced purchases of furniture. This has in turn affected demand for wood products from Asia, as the continent is one of the biggest manufacturers of European imported furniture. Slowdown in the Chinese construction industry has also affected the country's imports of wood and wood products, all resulting in a lower demand for wooden products from Africa.

The buoyant African infrastructure and construction industry has somewhat offset the decline in demand for SA forestry products (demand for sawlogs). The struggling exports of forestry products affected the overall SA Forestry market which saw a almost 8% decline in sales of pulpwood (60% of production of Forestry products)

DEMAND FOR LOGS



FINANCIAL:-

2013/14 proved to be a tough financial year for the association in that the association's expenditure exceeded its income from subscriptions and we had to rely on a transfer from our savings to make up the difference. Although this does not translate into reckless trading according to our auditors it is clearly a situation that cannot continue indefinitely and so we have no option but to cut our expenditure and increase the membership levy in 2014. It is thus budgeted for a cut to expenses of 6% and an increase in the membership levy of 8% which will amount to an increase of 0.3cents per m³ to 0.38cents /m³ and will be presented to the EMC for approval prior to the AGM. This is slightly above the countries official rate of inflation which is 6.2%. These measures will ensure a balanced budget for the 2014/15 year.

Good news is that through dogged determination we were able to negotiate a decrease in the Sawmilling Industries contribution to the Forestry Council by an amount of R65K per year and so this will assist to mitigate our expenditure in the year ahead as well. The Council levy of .02cents per m³ will remain unchanged for the year ahead bringing the total membership subscription for 2014/15 to .40 cents per m³.

The audited financials for the past year 2012/13 as drafted by Mazars are attached to this report.

TECHNICAL:-

The last year was a busy one from a technical aspect for the association whilst there was not a great deal of variety or differing projects we did sponsor the start up of the most important project the combined forest industry has undertaken in many years and that is the Espacement Project or "Planting Espacement for SA Pine Sawlog Resources" as it is known officially. This is the first time in many years that both the growing sector and the sawmilling sector are doing joint research on tree improvement in an attempt to improve the inherent quality of the final sawn product yield. This is a three year project that completed its first year in the last period (2012/13) and one we are confident will encourage our growers to produce a improved tree for our utilisation. The driver for the above was as a result of research that was carried out on our behalf by Stellenbosch University which highlighted the need to address ways to improve the MOE values being attained from lumber derived from younger trees. We eagerly await the results.

Another challenging issue that the technical committee is dealing with is the request from the ITC that the Brandering dimensions be reassessed by the SABS to exclude brandering of 34X34mm. This has been referred to the SABS technical committee SC 1008A which

thankfully is chaired by your ED. I think that we all agree that a change to the dimensions of branding would not be in the interests of the sawmilling industry.

The proposed new additional specification to SANS 1783 for structural lumber as drafted by Mr Peter Muller and Brand Wessels on behalf of the association was this year lodged with the SABS and is currently with the specification writer. As you all well know this is another vital deviation from the past that will allow “mill specific grading” a step that has long been the desire of all sawmillers and we are proud that we have been able to drive this important development.

Another important issue is the resurgence of the need to draft and have implemented a revised specification for the use of Eucalyptus as an accepted structural product. This is both important for our hardwood producers and as an additional “local” product to offset future structural lumber demand. We are proud to be involved in this initiative on our member’s behalf.

SSA did also respond to the advertisement placed in the National news by the State controlled company SAFCOL, where it called for tenders to do a feasibility study into the export from South Africa of higher quality sawlogs. We offered the assistance and benefit of some of our members experience in this direction.

GOVERNMENT:-

2013/14 was a demanding year for the forest industry in its dealings with Government. The greatest challenge for the sawmilling industry is to get the department of Agriculture, Forestry and Fisheries (DAFF) to take the “formal” sawmilling industry seriously. There is a desire in Government to assist and support SMME in an effort to create jobs but the focus on the already established participants and their contribution to job creation is often underestimated. It is for this reason that we (SSA) partake in the CEO’s forum in the form of our seat on the steering committee, this allows us to engage the DG of DAFF as well as the DDG Forestry and whilst these engagements at times seem tedious we are getting the sawmillers voice heard.

We enter a new phase in the coming year with the appointment of a new Minister and so look forward to what is expected to be renewed enthusiasm from Government. The powers that be are slowly realising that formal sawmilling as a predominantly rural based industry has the potential to create jobs and support entire communities.

Towards the end of 2013 SSA was approached by the DTI as to whether our members would be interested in participating in a trade mission to Mozambique to engage with that countries forest sector and to assess the potential for SA based sawmillers in establishing business in Mozambique. The trade mission will be lead by an official of the DTI and will be

arranged for some time in the third quarter of 2014. To date we have interest from one of the leading players in SA and are looking for others. If there any sawmillers large or small interested in joining us please contact the executive director.

CHARTER COUNCIL:-

As one of the sawmilling industries official representatives together with Mr Lulamile Xate on the Forest Sector Transformation Charter Council (FSCC) SSA has been actively involved with the running of the council's affairs this year. This is sometimes a frustrating exercise as the council is made up of representatives from organised labour, communities, government (DAFF, DTI, ED) and industry and it is often difficult to serve the varying interests of all constituents. It is however pleasing to report that sawmilling is seen as a dominant player in the forest sector and taken seriously at this level.

Up until now the power of the BBB-EE act and its codes of practise have not had any serious teeth as it was considered "soft" legislation and had no real consequences for non compliance. This is all about to change with the promulgation of the revised act and its codes. It has been given wide ranging powers of enforcement, so it is more important than ever that all segments of the forest industry are represented and actively participate on the council. The FSCC, as have all industry councils, been allowed to revise and align its sector specific codes to the new generic DTI codes and I am pleased to announce that your association is actively involved in this process.

Two of the Governments many commitments to the Council, to allow the establishment of an additional 100k hectares of predominantly sawlog production and to support the reversal of much of the exit area in the Western Cape are issues that SSA pursue in earnest with the representatives of government on the council.

OTHER REPRESENTATIVE BODIES:-

SSA continues to enjoy a productive and healthy relationship with all other forest industry representative bodies, including FSA, SAWPA, SAUPA, ITC, ITFB and others. It is only by working closely with our colleagues that we are able to understand and address certain of the challenges posed on our combined subsectors. Here I must make special mention of FSA and SAWPA who have both been of invaluable advice and assistance to us.

SKILLS DEVELOPMENT:-

We have not been as active in this direction as we would have liked and this is a direct result of the tough economic situation in our industry it is a sad fact that in the hard times skills development is one of the peripheral elements that is invariably affected. This however will not be

that easy to ignore in the future as Skills development makes up an important element in the future of BBB-EE implementation. We are still represented on the board of the FP&M Seta by Mr Roger Godsmark of FSA and I am pleased to report that Roger is doing all in his power to ensure that our industry gets it rightful slice of the pie. SSA did in the past play a direct role in that we used to arrange certain in-company training for kiln driers and sawdoctors but I am sorry to report that financial restrictions have seriously curtailed these initiatives.

PROMOTIONS:-

We have for some time now been working together with the ITC on an initiative to raise money for the Wood Foundation the bulk of which would be used to promote the virtues and use of locally grown and produced wood and wooden products. This is now more important than ever given recent developments in the market place. I am not sure if you are aware that **“American Softwoods”** the umbrella name for three trade associations – The Southern Forest Products Association (SFPA), The Softwood Export Council (SEC) and The Engineered Wood Association (APA) will be exhibiting and soliciting business at the WoodEx Exhibition this year, never has the term “the Yanks are coming” meant so much to our industry these are all associations that represent the producers of softwood for the Structural, packaging and furniture industries and we need to be under no illusions of their intent to enter our market space. Another threat to us is the ever increasing number of light steel framers entering the market. In this case “The Chinese are Coming” and believe me when I tell you they are seriously intent on capturing as big a slice of our market as they can. I felt that I had to make the point by including the photograph below.



This all means that unless we stand together with our fellow South African suppliers, producers and customers (FSA and the ITC), raise the necessary money through the Wood Foundations proposed “Industry Development Fund” and promote ourselves and our products to both the trade and the consumer we are going to pay the price in the long term. The Wood Foundation was established for precisely this purpose and so I urge you all to support their initiatives.

FUTURE:-

What does the future hold for both the Industry and the association you may ask. It has been suggested that we as sawmillers should abandon our independence and throw our lot in with the likes of the growers or our friends in the market place but that would be counterproductive as it is only us as sawmillers who know what it takes to establish and keep running a viable milling enterprise and to this end it is only ourselves who can guide our future direction. I believe that our independence is vital to our survival.

As for the industry never before have we had as many opportunities and at the same time threats to our future. Opportunities because the world is turning to eco friendly or green alternatives and our resource and the way in which we convert it could not be “greener”. South Africa is a dynamic growing country and as such will always be demanding our product. Threats are coming in the form of alternative products, alternative producers, ever restrictive legislation, social demands and shortages of resource. It is up to us as to how we face up to these and make the most out of good old South African initiative.

APPRECIATION:-

It is appropriate that I thank the Executive management Committee for their support during the year and the privilege they afforded me to serve the sawmilling industry for the past year and I look forward to working with the newly elected executive. To all our members I say well done in making it through another tough year and I look forward to serving you all again in the new term. We do indeed have some challenges ahead but I am confident that in true South African tradition we shall face and conquer them together.

RD Southey

30/05/2014

